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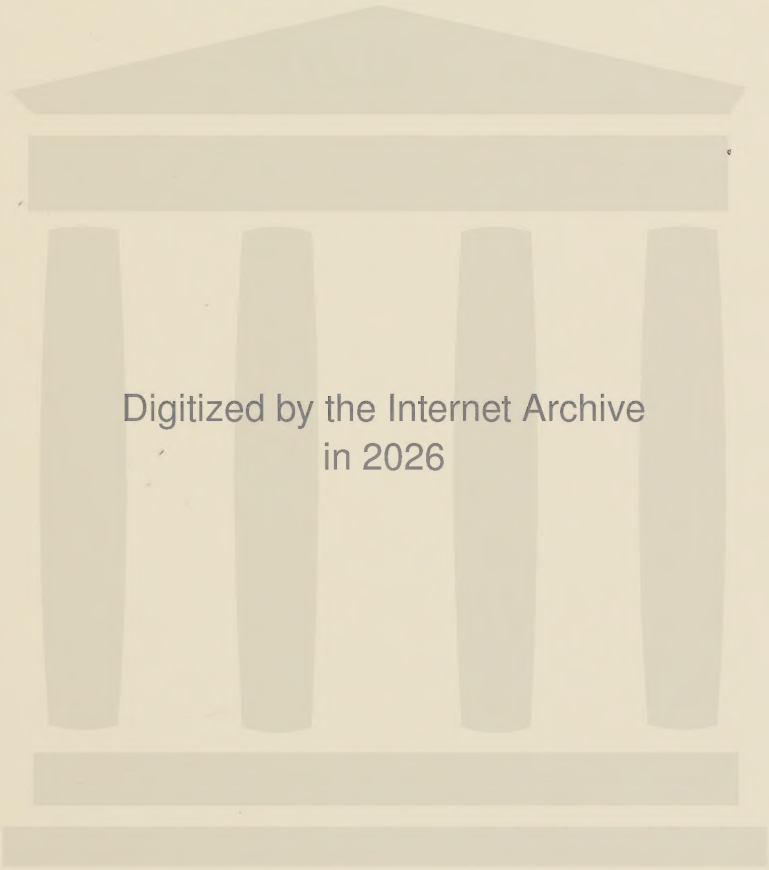
THE M&A TRANSITION GUIDE

A 10-STEP ROADMAP FOR WORKFORCE INTEGRATION

Patti Hanson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The M&A Transition Guide

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This book is dedicated to my mother,
who gave me the tenacity to begin and finish
a project of this nature.

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Introduction

For the person in charge of any transaction that moves employees from one company to another, *The M&A Transition Guide: A 10-Step Roadmap for Workforce Integration* provides instructions that are crucial for a successful integration. If that person is you, whether the transition is effected by a merger, acquisition, divestiture, or leveraged buy-out, you will want an orderly process to ensure that the right questions are asked and the appropriate tasks are planned. This guide walks you through the steps to ensure that all facets are considered. You will see how to develop a project plan, complete a due diligence human resources (HR) review, compare and develop benefits and compensation packages, and prepare to communicate the necessary information to transferring employees.

Step-by-step checklists are provided along with sample project plans and templates in both hard and soft copy. (Soft copy of templates are available on internet at www.hr-integration-tools.com.) As a consultant, HR generalist or project manager, you may have years of professional experience, but if this is your first employee transition, these tactical details will provide answers to questions you will need to address.

The good news is that you are not alone; nor are you the first to manage an employee transition. Rather than feel your way through the darkness, you will save time and avoid mistakes by capitalizing on prior experiences. This book is based on real-world experiences and will guide you in what to do as well as what not to do. Throughout the book, you will see questions and concerns that employees will have; I have

provided these to help you anticipate emotional reactions. Although each transaction is unique and we cannot predict every challenge, I have included numerous examples and case studies to help you understand the process.

Scar Tissue and Battle Wounds

Although I have 18 years of HR experience, the most relevant fact is that I survived and thrived in a technology environment where I assisted in coordinating numerous employee integrations. For nine years I worked for a company in the information services sector. As is common in the high-tech industry, my employer went through some turbulent times. Originally I joined a company known as Businessland, Inc.; they downsized and reorganized, and then merged with JWP, Inc. The Information Services division later spun off, and spawned the separate entity of ENTEX Information Services. After a period of stabilization, ENTEX began experiencing success and phenomenal growth; the organization enhanced its growth further by acquiring smaller companies throughout the United States. The business strategy evolved to include outsourcing servies to Fortune 1,000 companies that brought client employees to work for ENTEX in groups as large as 300 individuals per engagement. In 1999 ENTEX divested the technology acquisition services division. In this transaction approximately 1,000 employees were transitioned to another company.

Through these organizational changes, I established transition plans, worked with project executives, helped create communications strategies, and coordinated hundreds of behind-the-scenes details to assist in integrating employees. The experience and knowledge that I gained from these transactions inspired this book. The experiences shared by others provided further impetus. My decision to document and share this knowledge will hopefully make life easier for those of you who have been told, "The Deal is signed, now make it happen!"

Understand the Big Picture

To begin this journey, you will first need to develop a full understanding of the two businesses being integrated—their similarities, differences, customers, business goals, and business challenges. Although your focus may be only on the employee transition, it will help to an-

Ask Questions to Understand the Why's and When's of The Deal

What are the business goals of both the sending and receiving companies in completing the transaction?

What is the primary challenge being faced by both companies?

What are the customer concerns?

What is the timing anticipated to close The Deal?

How much confidentiality is expected or required?

What is the anticipated value of the transaction?

What is the total number of employees in each company?

What is the approximate number of employees to be transitioned to the receiving company?

Where are the employees located?

What functions are included in the transition?

Will any functions overlap between the sending and receiving companies?

What is the core competency of the receiving company, and how do the skills of the transferring employees support it?

Who is my HR counterpart with the other company, and when can we communicate?

swer questions along the way if you discuss the full scope of the transaction with the deal makers. Ideally, you will gain a perspective from both sides of the transaction: the sending company (which is transferring employees off of its payroll, or the company being acquired or divesting a division) and the receiving company (which is transferring employees onto its payroll, or the company doing the acquiring).

A Special Note on Outsourcing Engagements

The term *outsourcing* often conjures up visions of mass layoffs. An entire department will be closed because its function is being sent *out* to a service provider for whatever business reason. Layoffs are not always the end result for an employee in the identified department. For example, and perhaps more so than in any other arena, outsourcing of the information technology or information services functions does not necessarily mean layoffs. Because technical talent is in high demand due to a supply that is well below the national need, employees with technical expertise are frequently transferred to the outsourced department's service provider. In any area where employees have critical functional, technical, or historical knowledge, it is beneficial to transfer the employee to the outsource service provider.

The guidelines in this book are applicable to this type of transition as well, in that the same principles must be considered—employees are being moved from one company to another, and they will have the same concerns and fears: "What will happen to my position? How will my compensation be affected? What benefits will I have? Will this be good or bad for my career?"

Caveats

In this book I cover numerous subjects, some of which you may think deserve more in-depth study. Perhaps they do; they are complex topics—compensation, benefits, leadership, communication, reductions

in force. In the real world of M&A transactions, however, there is a strong sense of urgency, and absolute deadlines must be met. Therefore, my goal is to provide guidance in the many areas that are affected by such a transaction—enough guidance to help you navigate the unknown waters. But there may be situations when you are walking on totally unfamiliar grounds, and you will want to seek assistance from a consultant or legal counsel. Please do so!

Certainly there may be policies and labor agreements in a union environment that must supercede generic guidelines. In the area of pension funds and medical plans, you may need legal guidance. This book is not intended to take the place of those needed experts.

How to Get the Most from This Planning Guide

A human resource transition is a process, not an event. It is a series of steps that must take place from initial planning through final implementation, and although the day of announcement may be a big event, it is only one step in a complex process. My intent for this guide is to walk you through those process steps (see Figure I.1). I have tried to present the materials as if I were there working through the transition with you.

Figure I.1 10-Step Roadmap

1. Develop workforce integration project plan.
2. Conduct HR due diligence review.
3. Compare benefits and analyze differences in value.
4. Compare compensation and analyze differences in value.
5. Develop compensation and benefit strategy for workforce integration.
6. Determine leadership assignments.
7. Address duplicate functions.
8. Prepare employee communications strategy.
9. Define transition data requirements.
10. Develop employee retention strategy.

I recommend that you read a chapter, examining the templates and examples provided. Then, work on the soft copy documents available at www.hr-integration-tools.com and customize them to your specific needs before moving on to the next chapter. Working through each chapter in this manner will allow you to complete a series of preparatory tasks as you learn. In most cases it is best to go in the order of the chapters, allowing yourself to further expand on prior steps.

For example, the first step is to begin developing the HR project plan. You will add tasks to that plan as you move through further chapters. Likewise, in Step 2, you will complete the due diligence HR review. This step will lead you through the collection of data needed in future steps where you will examine the benefits and compensation data collected in Step 2. You will repeat the process for each chapter:

Read → Examine Templates and Samples → Customize

But again, each deal is different and will assume a life of its own. The flow of steps I have outlined may not necessarily apply in the same order for every transaction. If your particular situation calls for selecting leadership prior to or simultaneously with working on compensation and benefits issues, you might jump to Chapter 6 to help you determine leadership assignments.

As with a roadmap, when we drive from where we are to where we want to be, there is usually more than one possible route. The interstate highways are often more efficient, but there are times when a detour requires us to take the back roads. When that happens to you, you will make the necessary adjustments. Continue to follow the map, but keep your eyes on the road!

Please do not mistake the order of the chapters to represent the importance of a topic. For example, I have written the communications strategy as Chapter 8. Yet, if communications are not properly planned and executed, the value of a multimillion- dollar transaction can be gravely impacted. Again and again I will refer to the critical na-

ture of communications, which became Chapter 8 because the information from earlier chapters funnels into the communication materials. Throughout all the steps, however, communication is the key to success.

Personal Commitment

My promise to you is that I will not waste your time. My personal philosophies and theories are not what you need or want right now. I appreciate that you have a big job in front of you and that your time is precious.

1

Step 1

Develop the Workforce Integration Project Plan

The project plan is critical throughout the entire transition process and will be a working document that is continually updated. It will guide you and your team through the days and weeks ahead, ensuring that you are on track with the requirements of the overall transaction.

Chapter Goal

The purpose of this chapter is to help you organize the actions required during the employee transition process. The tool you will use is a standard project plan; it will help you map the multiple elements of the transition project. You will identify and document the major steps and tasks associated with each step that are required to transition employees into the new organization. You will then determine the person who will own each of the tasks and the date by which each must be accomplished. The project plan is critical throughout the entire transition process and will be a working document that is continually updated. It will guide you and your team through the days and weeks

ahead, ensuring that you are on track with the requirements of the overall transaction.

Getting Started

The coordination of efforts to transfer employees from one company to another is obviously most effective and efficient when done in collaboration between human resource (HR) representatives from both the sending and receiving companies. As early in the planning process as possible, you will want to meet with your counterpart to develop mutually agreed-upon targets. However, because of the sensitive nature of many organization transactions, it is possible that the HR team on the receiving side of the transaction will be notified before the team on the sending side is, or vice versa. I have worked on transitions from both positions and will reiterate that it is ideal to work together as early as possible in the process. However, The Deal negotiators and attorneys will usually dictate when the intercompany communications can begin in the HR planning process.

Whether or not you are working in conjunction with your HR counterpart, it is critical that you establish deadlines for actions that correspond with and support the transaction date. As stated in the Introduction, you must prepare for the project plan first by seeking applicable information regarding anticipated dates discussed in negotiations. Your project plan will require you to determine intermediate short-term target dates that will culminate in HR activities that support the overall transaction.

What Is a Project Plan?

A project plan is an organizational tool used to schedule all actions that must be completed and to set deadlines that must be met in any given project. The most basic plan would have five columns of information:

Figure 1.1 Sample Section: Project Plan

Steps	Tasks	Who Owns	By Date	Status/ Comments
1. Develop workforce integration project plan.	a. Customize project plan provided.	V. York	8/17	Done 8/20
	b. Assign accountabilities to individuals.	V. York	8/17	Done 8/20
	c. Assign deadline dates.	V. York	8/17	Done 8/20
	d. Obtain disclosure approvals, if necessary.	V. York	8/22	Done 8/23
	e. Communicate with integration team individuals.	V. York	8/25	Done 8/25

one for the major steps, another for the breakdown of tasks, a third for ownership of the accountabilities, a fourth with the date by which each task must be completed, and a fifth for comments or status of progress. See Figure 1.1 for a sample project plan. Enhancements with additional information can be helpful; these might include data or resources needed, start date and finish date, and predecessor tasks.

A number of software tools are available to assist with the project management process. Anything from a simple spreadsheet to more elaborate packages with built-in Gantt charts can make the job easier. One of the popular project management tools is Microsoft Project, but there are dozens of others. For those who are not professional project managers, a simple Excel spreadsheet works fine. Although it may not have all the features of true project planning software, it is accessible by the majority of computer users. As your project team expands to more individuals, each will typically have Excel software and will have a basic understanding of how to navigate through the document. Whichever method is used, the project plan will become the master document for tracking tasks to ensure that they are completed on time, so it is essential to select an application that all members of the team can use.

Overall, the project plan will provide a systematic documentation process whereby you can identify and prioritize the tasks, assign the tasks to individual owners, and monitor their progress against assigned deadlines. This documentation will also provide an excellent method for communicating expectations to team members, as well as for

reporting progress to your counterparts who are working on the other operational, legal, financial, and technical steps of the transition.

Who Should Own the Plan?

The owner of the project plan must be organized, empowered, and assertive. By *owner,* I mean the person who will manage the plan to ensure that all required actions are completed and completed on time. Depending on the size of the project and the availability of resources, you may need to own and manage the plan yourself. If the transition is large and resources allow it, you may engage the services of a project manager who will keep the document updated and will ensure that the accountability owners adhere to the deadlines required. If you have difficulty becoming organized, you will definitely need a project manager to ensure the success of the transition. Either way, you or your designated project manager will need to be tenacious in the following areas:

- Documenting necessary actions as they surface
- Assigning them to a reliable owner
- Determining appropriate deadline dates that are compatible with other deliverables
- Communicating with applicable parties
- Following up to ensure that progress is on track
- Escalating problems
- Closing actions as they are completed

Plan the Action

To develop the project plan, you must know and understand the depth and breadth of the objectives to be accomplished and be able to define

how to move from the current state to the desired state. You must list the major milestones as well as the intermediate stepping stones. The project plan template follows Chapters 1 through 10 of this book.

These steps must be broken into assignable, manageable tasks that someone can own and deliver on a specific date. To fill in the tasks, you can begin by referring to the checklist at the end of each chapter. See Template 1.1, on which the steps and associated tasks have been listed for easy reference.

Your project plan will expand as you progress; additional tasks will inevitably be identified. What I've provided is the basic shell with which to begin. As we progress in future chapters, you will fill in additional task groups in your plan as they are applicable to your situation. Each time there is a conference call or a meeting, new action items will surface. Add them to your project plan to make sure they're incorporated with the ongoing tasks.

See Appendix A for sample sections of integration project plans. These sections illustrate how specific tasks are added and maintained in a working plan. Included are examples for leadership selection and a reduction in force.

Assign Accountabilities

When assigning accountabilities, consider the scope and authority that will be required of each individual, and communicate with those people involved. Make sure they have the resources necessary for the transition project. Time is probably the most critical resource. If someone has a full plate and this project will require three quarters of his or her time, it won't get done. Find out what jobs can be reassigned to someone else, and make sure the priorities of the transition are well understood. Meeting deadlines will be absolutely critical, so it is best to know up front what other priorities will require the time of your key accountability holders.

Disclosure limitations must be considered when selecting the core transition team. Whether due to Securities and Exhange Commission

(SEC) regulations if a publicly traded company is involved in the merger or acquisition, or due to customer request for sensitivity to an outsourcing engagement, the accountability owners of the transition team will need to be discreet in handling the duties assigned. Select your team accordingly.

For each designated task, select subject-matter experts who can be trusted both to know the best practices of that particular topic and to have the decision-making capabilities to provide recommendations that may have long-lasting effects on a large number of employees. When, for example, you select someone to create the benefits strategy, you can't afford to have a person who doesn't understand the requirements of the vendors, the regulations of the federal government, the financial implications to the company, and the preferences of the employee population.

And, finally, the obvious requirement: Those people selected should respect deadlines and require little or no hand-holding. Remember that your success—the success of the transition—will rely on the people you select to join the transition team.

Prioritize the Actions and Set Deadlines

I have provided an orderly process flow with 10 major steps and have defined manageable tasks in the Workforce Integration Project Plan (Template 1.1). Ideally, you will have time to follow these steps as outlined, in sequential order from beginning to end, or you may rearrange some steps based on the situational needs. In reality, you may have very little time to complete all the steps, and you will require more resources to work on steps simultaneously. Unanticipated events and problems will occur; emergencies will arise. Expect the unexpected.

So, how can you properly prioritize the actions without knowing what crises will befall the project? Allow time for emergencies, and be flexible in seeking solutions. When Plan A won't work, know when to move to Plan B. And sometimes Plan C. If the benefits booklets won't arrive in time, what summary information can be provided? If the re-

ceiving company can't provide health care coverage on the first day after the transaction, will the sending company extend coverage? If neither appears possible, then consider Consolidated Omnibus Reconciliation Act (COBRA) extensions. One of your most important responsibilities will be to find solutions when things don't go as planned.

Given the above precautions, you will want to pad in extra time wherever possible. If something takes a day and half, allow two. Ideally, from a project manager's perspective, you will step through each action, assigning dates based on how many days each task requires. But let me bring reality back into the picture again. You'll be given a deadline and told to meet it, no matter what. You will then back into the date, working from final deliverables to predecessor tasks. You may end up squeezing things into a time frame that is less than ideal.

In an outsourcing engagement I once developed an initial integration plan resulting in an eight-week deliverable. Others on the team said it looked good—the plan would work well. The customer, however, came back and said, "We need it done in five weeks." So, as you would imagine, we reworked the plan, added more resources, and got it done in five weeks.

Just keep in mind that those who are negotiating The Deal will most likely drive the deliverable dates. You may be able to influence them, and occasionally you may have to demand more time because of legal or federal compliance issues, but more often you will need to figure out how to get everything done in the required time frame.

Communicate Constantly and Manage to the Plan

Nothing can defeat a project more quickly than miscommunication or lack of communication. Starting with the task assignments, you will want to discuss deliverables with selected team members individually to make sure that expectations can be met, that time and resources are available as required, and that all tasks are understood. Ongoing

communication meetings will be needed to ensure that everyone is on track. Depending on the sense of urgency in completing the transition, daily meetings or conference calls or both may be required. Establish a specific time for meetings when all team members know their presence is required.

Identify who the main liaisons between companies will be. Rather than having numerous HR contacts, it is better to funnel communications through one person to ensure full knowledge of what's been communicated and delivered. Having one gatekeeper on each side will eliminate confusion and finger pointing. It is critical to select a person who will be able to remain assigned to the transition throughout the length of the project.

The project plan is only a tool. It's not a miracle. Creating it and distributing it won't make things happen. Managing to the plan is what makes it all come together. Check progress, or the lack thereof, and check frequently. If a deadline date is missed, find out why, what barriers got in the way, and how they can be removed. Then set a new deadline date. Setting new deadlines without removing the barriers will only result in another missed deadline.

The entire transition project will consist of a series of communications and checkpoints working from the project plan. By maintaining a closed-loop process of checking deadlines, communicating progress, and documenting upcoming tasks and completed actions, you will be able to achieve each of the transition deliverables in the time frame required.

Summary

Formally establishing a project plan for the integration steps on which you are about to embark is not just a *good* thing to do; it is an *essential* thing to do. As you progress through this process, you will address literally hundreds of tasks that need to be accomplished and decisions that must be made. To attempt such a feat without a project plan would

be to set yourself and your team up for failure. The time to initiate a plan is now. If resources are available, assign a project manager immediately. Begin your plan with Template 1.1. (See www.hr-integration-tools.com for access to soft copy template.)

Step 1: Develop Workforce Integration Project Plan

Task Checklist

_____ Customize project plan provided.

_____ Assign accountabilities to individuals.

_____ Assign deadline dates.

_____ Obtain disclosure approvals, if necessary.

_____ Communicate with integration team individuals.

Template 1.1 Workforce Integration Project Plan

Steps	Tasks	Who Owns	By Date	Status/ Comments
1. Develop workforce integration project plan.	a. Customize project plan provided.			
	b. Assign accountabilities to individuals.			
	c. Assign deadline dates.			
	d. Obtain disclosure approvals, if necessary.			
	e. Communicate with integration team individuals.			
2. Conduct HR due diligence review.	a. Complete Due Diligence Checklist; collect and review data.			
	b. Evaluate potential liabilities.			
	c. Communicate concerns to those negotiating The Deal.			
	d. Determine adjustments or actions necessary.			
3. Compare benefits and analyze differences in value.	a. Complete Benefits Comparison Chart for sending company.			
	b. Complete Benefits Comparison Chart for receiving company.			
	c. Compare and assess differences or concerns under Discussion Points.			
	d. Summarize differences.			
4 Compare compensation and analyze differences in value.	a. Complete Compensation Comparison Chart for sending organization.			
	b. Complete Compensation Comparison Chart for receiving organization.			
	c. Compare and assess differences or concerns under Discussion Points.			
	d. Summarize differences.			
5. Develop compensation and benefits strategy for workforce integration.	a. Complete Compensation and Benefits Strategy Worksheet.			
	b. Review with appropriate parties.			
	c. Revise as necessary.			
6. Determine leadership assignments.	a. Review vision and business strategy.			
	b. Review the combined organizational structure.			
	c. Review the core competencies that support the business strategy.			
	d. Determine leadership needs by position.			

Template 1.1 (continued)

Steps	Tasks	Who Owns	By Date	Status/ Comments
	e. Assess individual candidates.			
	f. Select leadership for the new combined organization.			
7. Address duplicate functions.	a. Review department functions and determine staffing requirements.			
	b. Identify individuals who will be reduced.			
	c. Review for adverse impact.			
	d. Determine if the WARN Act applies.			
	e. Determine level of severance pay and outplacement, if any.			
	f. Create reduction communication documents.			
	g. Assign and prepare facilitators.			
8. Prepare employee communications strategy.	a. Determine methodologies and logistics for initial announcement.			
	b. Develop message content/ presentation materials/Q&As/ welcome package.			
	c. Assign and prepare facilitators.			
	d. Hold announcement meetings.			
	e. Hold HR meetings.			
	f. Hold one-on-one management/ employee meetings.			
	g. Hold town hall meetings.			
	h. Prepare and distribute weekly transition newsletter.			
9. Define transition data requirements.	a. Assess data requirements and availability.			
	b. Prepare test data for transfer.			
	c. Prepare final data for transfer.			
10. Develop employee retention strategy.	a. Help employees manage through the change.			
	b. Set and keep focus on business goals.			
	c. Explore best practices and process changes.			
	d. Provide multiple training and learning opportunities.			
	e. Provide ongoing newsletters.			
	f. Conduct employee surveys.			
	g. Hold employee roundtable discussions.			
	h. Consider retention bonuses.			

2

Step 2

Conduct HR Due Diligence Review

"After the deal was closed I talked to the sales manager and learned his insights about the business deteriorating. There was so much I didn't know. I wouldn't have gone through with it if I had known all the problems."

—Ron Creten, business owner

Chapter Goal

A thorough due diligence review can reveal hidden liabilities that could cost your company thousands of dollars unless they are considered during contract negotiations. If you are acquiring employees, the discovery of potential litigation, claims, and liabilities could negatively impact the value of the transaction. In addition, some elements are difficult to quantify in dollars but can impact the future success of the transaction. This chapter will provide precautionary measures and a checklist to help you avoid surprises after the deal is negotiated.

Why Bother?

The purpose of conducting a due diligence investigation is to determine liabilities and vulnerabilities before signing the final agreement. The HR review is three fold.

1. You may discover liabilities that could impact the financial viability of the transaction.
2. You may discover discrepancies that can be addressed in the agreement to both parties' satisfaction without financial considerations.
3. You may discover variations in policy and practice that will be essential when integrating and communicating with employees.

Regardless of which of the above outcomes is effected, a due diligence investigation will be worth the time and effort required; and certainly the company on the receiving side of the employee transaction may avoid financial loss as well as negative impact on morale and momentum.

When Does the Investigation Take Place?

A preliminary investigation will probably take place before the letter of intent is signed for a merger or acquisition transaction. Concerns may be revealed, and further details may be needed. However, to maintain confidentiality it may be necessary for much of the investigation to take place after the letter of intent is signed. What I have outlined in the following pages should be conducted prior to the final signing of the transaction.

What Are the Major Components of the HR Due Diligence Investigation?

A solid due diligence review will include a number of data-gathering components, which I categorize into *Hard Facts* and *Soft Facts.* Hard Facts are generally those things that can be seen in written reports: statistics, documented policies, charts, audits, records, and surveys. Information included in the Hard Facts would be data on benefits, compensation, employment regulations and third party claims, and labor relations, as well as policy, procedure, and safety. Soft Facts are tougher to find and to verify, but it can undo a successful transaction even when all the Hard Facts look good—for example, key employee losses, management style, reputation, and senior management character and integrity. The elements of each of these categories are listed in Template 2.1, and the following will provide further clarification and description of the data to be collected. We will examine each group as follows:

1. Hard Facts
   a. Benefits
   b. Compensation
   c. Employment Regulations/Third Party Claims
   d. Labor Relations
   e. Policy, Procedure and Safety
2. Hard Facts That Reveal Soft Facts
3. Critical Soft Facts

Hard Facts

Benefits

The benefits review is critical both from a company's financial perspective as well as for a smooth employee transition. If possible, a visit with the sending company's benefits manager should be arranged so that you can be provided with an overview of all benefits in place for the transitioning employees. Collecting a copy of the Summary Plan Descriptions for each benefit plan will be essential not only for due diligence purposes but also for the next step of comparing benefits between the two companies. In Chapter 3 we map out the benefit differences that employees will experience in moving from one company to the other.

During the due diligence investigation, I recommend engaging the services of an attorney to confirm that each qualified plan has been operated and administered in accordance with applicable laws, that each has received a favorable determination letter from the IRS, and has passed applicable tests, such as Top Heavy Tests, ACP,* ADP,** 50/40 Participation, etc. As stated earlier, there is no intent to replace counsel on legal matters.

Make sure you carefully review the funding of pension plans and retiree medical plans; underfunding of either can create a liability large enough to make the deal unattractive if the liability is transferred to the receiving company. As Kenneth Shapiro and Michael Carter reported in "Merging Benefit Plans," in *The Mergers and Acquisitions Handbook,* you must understand whether the long-term liability is properly funded, and whether you can legally amend the plan in the future.

* ACP: Actual Contribution Percentage
** ADP: Actual Deferral Percentage

You will also want to review claim experience, administrative fees, and other operating charges.

Finally, examine the vacation and sick pay accruals; you must understand what policy commitments are in place that will impact future liabilities.

Compensation

The collection of compensation data during the due diligence investigation will, as with benefits, have a dual role. The key is to look for unanticipated liabilities, but the information will also be used in Step 4. Determine what legal commitments must be assumed by the acquiring company—for example, golden parachutes for senior executives, car allowances, and special bonus commitments. Again, legal counsel may be required to determine whether new agreements can be established.

Be sure to review overtime expenses. Employees earning a large percentage of income in overtime may experience a sudden change in overall compensation if strict controls are in place in the acquiring company. How will overtime expenses impact profitability, and what considerations, if any, will need to be made in the employee integration process?

Check to see if any special compensation commitments, stock agreements, or deferred increases are in place. It is not assumed that you automatically carry through on such commitments, but you'll need to determine and communicate how they will be handled. Ignoring such promises will come back to haunt you. Employees would rather know how things will be handled, even if it's bad news, than be left to guess and pass along rumors on the topic.

Large discrepancies in salary ranges or compensation plans between the two companies can mean increased employee turnover if the receiving company has lower total compensation. It may not be possible to offer what the employees have been receiving if it will cause inequities within the receiving company. Make sure you are comparing all compensation factors: base salary as well as bonus and special incentives, overtime, lead and shift differentials, and travel and equipment allowances. This data will be used further in

Steps 4 and 5 when you are analyzing and determining compensation strategy.

The collection of pay rates and ranges along with competitive salary survey data can also indicate whether the transferring employees are paid competitively. A serious underpay situation could be contributing to turnover and could also mean additional payroll expenses in the new organization.

Employment Regulations/Third Party Claims

The data collected in this portion of the review will help you determine whether the acquired entity is meeting federal and state requirements and will highlight pending and potential litigation.

Affirmative Action Plans (AAP) will reveal, by market, both successful and unsuccessful attempts to bring about a more diverse work environment. The two most critical AAP elements I would review are the pages on Underutilization and Good Faith Efforts. This, along with the Equal Employment Opportunity–100 Report and pending claims with the EEO Commission will reveal discriminatory practices that could cause liabilities.

You will also want to check the Office of Federal Contract Compliance (OFCCP)* Audit Findings; the concern here is that there may be actions that were recommended to address prior failings. Check to see if those have been addressed; if not, note the deficiencies on your Checklist.

Fair Labor Standards Act (FLSA) compliance, or rather the lack thereof, can cause transition problems. In other words, if employees are identified as exempt when they should be nonexempt, there will be a transition challenge. Employees may feel they're being demoted if they are moved from exempt to nonexempt, and there may be overtime expenses that weren't previously calculated into the profit equation. Either way, this is a federal compliance issue that cannot be

* The OFCCP has the responsibility of ensuring that employers doing business with the federal government comply with the EEO and affirmative action provisions of their contracts.

ignored. You will need to bring all employees into appropriate classifications. More will be discussed on this topic in later chapters.

All pending litigation relating to the targeted employee population should be reviewed. In the case of a total company acquisition, the liability of claims may move to the receiving company. The liability involved here is obvious, but you should also examine the trends to determine if there is a pattern of claims and litigations that may reveal a more serious liability. In other words, one or two claims of sexual harassment may be isolated incidents, whereas a pattern of numerous claims may indicate a true problem with a hostile environment that could lead to future claims against the acquiring company. The same holds true in reviewing EEOC charges, wrongful termination claims, and wage and hour claims. Look at the pending situations as well as the trends.

In reviewing Worker Adjustment and Retraining Notification (WARN)* considerations, I recommend you become aware of the numbers and locations of recent layoffs—especially those during the last 90 days. Depending on the situation, if more employees are to be laid off immediately after the acquisition, merger, or outsourcing transaction, WARN may be triggered. In this case, appropriate notification must be provided in advance of any layoffs. This is discussed further in Chapter 7.

The due diligence process is a good time to review the annual cost of unemployment insurance. Ask to see the claims and expense history, because this can impact the future unemployment ratings and assessments against the acquiring company.

Labor Relations

This portion of the review refers to unionized employee populations, with the exception of a nonunion operation in which union-organizing efforts have been observed. I offer the checklist as a review of basic information. If the workforce is nonunion and there have been organiz-

* This act requires employers with 100 or more workers to provide at least 60 days notice of a plant closing or mass layoff to the affected workers or their representatives, state-dislocated worker units, and the appropriate local government.

ing efforts, find out if worker dissatisfaction is causing these actions. How recent and how strong is the activity?

In the case of a unionized workforce, learn what bargaining agreements are in place and what tabled issues may rise again. What is the strike history? Is there likelihood of a strike during upcoming bargaining discussions? Are there recall rights pending? Each of these can have an impact on how you will proceed with the integration of employees.

Policy, Procedure, and Safety

If you represent the receiving company, you may be thinking, "Who cares what the sending company's policies and procedures were? What matters are the acquiring company policies."

From past experience I've learned that many transition questions are the result of changed policies, and employees want to know how the transition will impact them personally. Having these policies, procedures, code-of-conduct rules, and the employee handbook will help you prepare transition policy statements and render decisions that are consistent and fair. For example, employees moving from a company that provided tuition reimbursement to a company that does not will want to know how their in-process classes will be treated. You may not be able to anticipate all the questions; but by having copies of prior policies and procedures, you will be better equipped to address transition and posttransition questions. These may also be needed in litigation; an employee who was disciplined for pretransition policy violations and then continued to violate rules in the receiving company could potentially be terminated. It may be necessary to show what the pretransition policies stated.

Job descriptions, again, are not required to avoid liability, but they will be helpful in later steps when you are matching employees into new job positions.

The safety issues on the checklist can be a red flag for liabilities to the receiving company. Make sure Occupational Safety and Health Administation (OSHA) regulations are met and review the work-related accidents or illnesses. Again, look not only for current claims

of concern, but also for trends that may indicate larger problem situations in the workplace.

Hard Facts That Reveal Soft Facts

As previously stated, Hard Facts are more readily available for your review and may reveal red-flag areas that could bring the transaction to a halt. On the other hand, they may be a reflection of the health of the organization in a more subtle way. The subtle information I call Soft Facts may be more difficult to read, but can nonetheless as readily require that the transaction be reconsidered or possibly revalued; or, Soft Facts may simply require some additional steps in preparation for the transaction. The items listed on the checklist in this section may or may not be available. Those that are available will be helpful in revealing some of those Soft Facts.

The three-year trend of turnover statistics can be studied on its own merit, but may be more helpful when compared with industry averages. Is overall turnover higher than the industry average? Is the turnover in the past year considerably higher than that from two years ago? Some industries have a normally high level of employee turnover, so the comparison to an industry average can provide a benchmark for determining the overall health of employee satisfaction. Make sure, however, that you are reviewing comparable statistics; total annualized turnover would include both voluntary and involuntary terminations. Clarify that those are the numbers you are seeing for both the industry standard and the target company. Extremely high turnover can indicate serious management or operational problems, and the expense of such turnover does represent significant financial costs. In and of itself, it may not be a deal-breaker; however, the combination of high turnover, the financial costs associated with it, and the underlying management problems all become significant. I have seen where the discovery of high turnover began the unraveling of The Deal, and through a series of concerning discoveries, the negotiations were terminated.

Compare how the training and development offered at the sending

company looks against that at the receiving company. If it is considerably less in the receiving organization, you'll need to develop a plan to address scaling back a benefit that employees probably value highly. On the other hand, if the training to be provided in the receiving company is greater, you've got a good story to tell, and you should capitalize on this added benefit.

If any employee surveys have been taken in the past year, this data should be reviewed prior to acquiring employees to better understand their overall satisfaction; however, the greater value is in learning what's causing dissatisfaction. Are there management and leadership problems? Are there integrity issues? Don't overlook the individual comments. These may provide valuable insight into what's right and what's wrong with the company.

Succession plans and promotion statistics, if they exist, can provide a snapshot of management bench strength that may exist in the workforce. Have key employees been identified? What is the likelihood of retaining those people, and what might need to be considered during this particularly difficult time of transition? This can be valuable information in the leadership selection process in Chapter 6, especially if a new leadership team is being created from the two prior companies, with managers coming from both teams. You will want to select the best from both worlds, and existing succession plan documentation can help reveal leadership strengths.

Staffing plans and the number of unfilled positions are points of interest for two reasons. They may reflect a shortage of talent within the particular industry, but they can also reflect how much focus toward recruiting will be needed after the transition. Not knowing how much redundancy exists in the two workforces, companies may typically stop normal levels of recruiting prior to a merger or acquisition. However, if unfilled positions are billable, limiting normal recruitment could have a negative impact on revenues.

Additionally, you should become aware of noncompete agreements. This could mean special handling of key employees who have recently been brought on board—for example, a sales professional who has been given a temporary assignment to avoid violation of a previous employer's agreement. Also, has the general population signed a noncompete as part of the hiring process? How will this change under

the regime of the new organization? Will employees be required to sign a new agreement, and for what consideration?

Critical Soft Facts

This information may only be available through one-on-one discussions and—certainly considering the confidentiality requirements of the transaction—may be extremely difficult to collect. However, a business owner who acquired a privately held company recently said he would not have gone through with the acquisition had he known the things he learned about the business within the first two days of having discussions with senior management team members. It was the Soft Facts that he had not acquired before signing The Deal.

The stuff that can be learned through the gathering of Soft Facts is the character, integrity, and attitude of the leaders of the organization. Learn about the reputation of the organization. Without revealing an upcoming transaction, this information may be gained through conversations with competitors, vendors and suppliers, customers, and employees.

If at all possible, insist on speaking with senior management members. Learn what business challenges they have been facing, what trends they have seen and are expecting to see, their take on employee attitudes, and recent key employee losses. Find out why those key people left and where they went. Learn how the budget process worked. Were realistic targets set—that is, targets based on staffing capacity and available capital? Or were revenue and profit numbers calculated on a percentage of growth based on top-down projections that had to be met no matter what likelihood the management believed was realistic? Was management autocratic or autonomous? Centralized or decentralized? And how do those responses compare with those of the receiving company?

Another soft element to consider is the fit of workforce competencies. Do the skills of the workforce complement the receiving company's strategy? Do they fill a void or strengthen the core competencies of the receiving organization? With the talent shortage, this may

even become the leading purpose for acquiring a company. In industries where normal recruiting activities simply can't meet the required needs, core competencies can be filled through company acquisitions. That only makes using the due diligence process to ensure a good fit even more critical.

Summary

Due diligence entails the collection and review of data that can impact most elements of the HR function. If you are on the receiving end of the employee transaction, this review is critical to ensure sound financial decisions and to reveal information critical to a smooth integration of employees.

The due diligence considerations could have such financial impact—especially if profits are already tight or nonexistent—that The Deal could be in jeopardy or the acquisition price should be altered. The information revealed can greatly affect the future success of the combined organization, well beyond the transaction itself. You cannot afford to enter any transaction involving the receiving of an employee population without reviewing the Due Diligence Checklist. (See www.hr-integration-tools.com for access to soft copy template.)

Step 2: Conduct HR Due Diligence Review

Task Checklist

_____ Complete Due Diligence Checklist; collect and review data.

_____ Evaluate potential liabilities.

_____ Communicate concerns to those negotiating The Deal.

_____ Determine adjustments or actions necessary.

Template 2.1 Due Diligence Checklist

Checkpoint	Date Reviewed	Concerns	Potential Value/Liability
Benefits			
Claim experience, administrative fees, reserves and use other operating expenses			
Funding of Pension Plans			
Funding of Retiree Medical Plans			
Obtain Copies of All SPDs			
Medical, Dental Vision			
STD, LTD			
Survivor Benefits: Life, Dependent, AD&D			
Pension, ProfitsSharing Plans			
Qualified and Nonqualified Plans			
Review Test Compliance for Qualified Plans			
Form 5500			
"70% Coverage Test"			
"50/40 Participation Test"			
Actual Deferral Percentage Test (if 401(k))			
Actual Contribution Percentage Test (if 401(k) w/match)			
Top Heavy Tests			
Determination Letters from IRS			
Total Cost of Benefits: Percentage of Payroll			
Compensation			
Bonus and Incentive Plans			
Car Allowances			
Golden Parachutes for Senior Executives			
Lead Differential Policy			
Shift Differential Policy			
Special Compensation Commitments			
Severance Commitments			
Wage and Salary Ranges			
Annual Payroll YTD and Prior Two Years			
Critical Soft Facts			
Reputation on the Street			
Senior Management Interviews			
Employee Satisfaction			
Knowledge of Business Challenges			
Workforce Competencies			
Employment Regulations/Third Party Claims			
AAP Plans Complete Where Required			
EEO-100 Report			
EEOC Claims			
EEOC Audit Findings			
FLSA: Exempt vs. Nonexempt Classifications			
Noncompete Agreements			
OFCCP Audit Findings			
Pending Lawsuits			
Training on Diversity, Sex Harassment			

Template 2.1 (continued)

Checkpoint	Date Reviewed	Concerns	Potential Value/Liability
Union Activities/Grievances, If Applicable			
Wage and Hour Claims or Audits			
WARN Considerations			
Wrongful Termination Claims			
Annual Cost of Unemployment Insurance			
Employee Retention			
Turnover Statistics—3 Year Trends			
Training and Development Programs in Place			
Employee Survey Results			
Succession Plan			
Promotion Statistics			
Labor Relations (If Applicable)			
Union Organizing Efforts			
Collective Bargaining Agreements in Place			
Extent to Receiving Company			
Grievance History			
Strike History			
Arbitration History			
Recall Rights Pending			
Policy, Procedure, and Safety			
HR Policy Manual			
Compensation Procedures			
Employee Handbook			
Employee Code of Conduct			
Job Descriptions			
OSHA Logs			
Worker's Compensation Carrier			
Worker's Compensation Liabilities			
Worker's Compensation Annual Cost			

3

Step 3

Compare Benefits and Analyze Differences in Value

The benefit elements are a key factor in successfully integrating employees into an organization. Don't underestimate the importance of a thorough comparative review.

Chapter Goal

This chapter shows how to develop a side-by-side comparison of benefits available to employees in the sending and receiving organizations. Once this comparison is developed, you will be prepared to examine the overall value each company provides to its employees and determine any major concerns that should be addressed during the employee transition.

It is critical to look at the big picture before jumping to conclusions about required actions. The chapter will help you walk through a full benefits evaluation providing a Benefit Comparison Chart to lead you through the exercise. (Also see www.hr-integration-tools.com for soft copy templates.) The chart includes a listing of the many benefits that may be reviewed as applicable. The chapter text covers discussion of

each benefit and provides examples of differences that may cause employee concerns during transition. The purpose of the chapter, simply, is to show how to assess the situation. This assessment will help you later in determining the strategy to handle variances in both compensation and benefits, and it will help you in developing employee communication pieces. Sample sections of a Benefits Comparison Chart as well as case studies are used to illustrate benefit variances and to calculate their significance. There is also discussion of how a seemingly small benefit loss can escalate to a big employee-relations issue.

Why Bother with Comparing?

You may be thinking, "Each benefit *is* what it *is*. The employees will move into the receiving organization and will have to deal with the benefits they get."

That may be true, but the employees are coming through a career transition over which they do have some control. They may have been "sold" as part of an acquisition, but they also know that there is a labor shortage and a demand for their talents. If their benefits were greater at the sending organization, they may not feel that they will have to accept whatever comes their way. Fortunately for the acquiring organization, most employees will usually wait and see, and a few negative factors won't send them running. You'll need to be upfront and deal with the negatives, however. The worst approach is to try and ignore them or hide them. On the other hand, if the benefits are a marked improvement over those offered by the sending company, you will want to emphasize the positives. Make sure employees understand the added value, and what it means to them personally.

Keep in mind that employees will be looking for differences. So, seek the differences proactively to avoid being surprised in the middle of an all-employee meeting, or worse, when reviewing the turnover statistics. This chapter will assist you in that proactive search.

Completing the Benefits Comparison Chart: When, How, and Who?

The exercise of entering the comparative data in the chart may be completed during Due Diligence, or at least early in the transaction. Typically, I've found the benefit information available early and more readily than the salary and compensation information, and therefore have placed this chapter before the one on compensation. As soon as Benefit Summary Plan Descriptions are made available, the exercise can begin. Or, better yet, the exercise can begin with a meeting between the Benefits Specialists from each organization who have been disclosed on the acquisition/merger.

Typically, Benefits Specialists from both the sending and receiving companies would complete their respective sections of the chart. Having subject-matter experts available will expedite the process. The specialist with the receiving organization would most likely complete the Discussion Points as the differences between benefit options are recorded.

What Are the Major Components of the Benefits Comparison?

In Template 3.1 you can see the components grouped as follows:

- Medical Coverage
- Dental and Vision
- Life Insurance
- Disability: Temporary and Long Term
- Pension Plans
- Stock/Stock Option Plans
- Paid Time Off: Vacation, Holidays, Personal/Sick Time, Bereavement, and Jury Duty

- Miscellaneous: Tuition Reimbursement, Employee Assistance Program, Employee Purchase Program, Flexible Spending Account

In the following pages, these components will be further explained for a better understanding of how each benefit may vary from sending to receiving company and will be illustrated through sample sections of a completed Benefits Comparison Chart.

Within each category, we will examine a number of critical factors pertaining to cost (to both the employer and the employee), eligibility guidelines, variable options to the employees, and other elements of each benefit that could play an important role in employee satisfaction.

Medical Coverage

There are a number of initial concerns employees may have about medical coverage. From past experience, I rank the top four concerns as follows:

1. Will I have medical coverage with my new employer?
2. Will my coverage be uninterrupted?
3. What will it cost as compared to my past experience?
4. Will it be similar/better/worse than my current coverage?

Employees have numerous other related questions, and the Benefits Comparison Chart will help you think through the many variables. Refer to the template as we walk through this chapter. Let's address the top four questions first.

Will I have medical coverage with my new employer?

The first entry on the Benefits Comparison Chart will answer this question. Ideally, and in all transitions I've helped facilitate, both the sending and receiving organizations offer medical coverage. However, there are two other possibilities.

Scenario 1: Sending company provides no medical coverage; receiving company provides coverage. This is a move to the positive, so it should be an easy sell to employees, and certainly one good reason for them to be happy about the merger.

Scenario 2: Sending company provides coverage; receiving company provides no coverage. This can be a bombshell when announced to affected employees. Ultimately, it may contribute to the turnover of large numbers of people. The variable needs to be escalated to the deal makers so they are aware of potential problems. Unless the retention of employees is of little or no concern, the cost of providing medical coverage should at least be considered against the cost of the loss of a critical mass of employees. One alternative may be for the receiving company to offer wages that are considerably higher than the competitive market so that employees can afford to purchase individual insurance.

Will my coverage be uninterrupted?

If employees are eligible for medical coverage on the first day of employment at the receiving company, there is obviously no interruption in coverage. If, however, there is a waiting period, such as 30, 90, or 120 days from employment, there will be serious concerns for acquired employees. Certainly there are solutions to consider that can be implemented by either organization. Those will be discussed further in Chapter 5. For now, you need to record the concern on the Benefits Comparison Chart.

What will it cost as compared to my past experience?

On the Benefits Comparison Chart, see Employer Contribution versus Employee Contribution. Review the cost of medical insurance premiums to both the company and the employee. In other words, how much is the insurance premium, and how much is paid by the employer versus the employee? No matter how good or bad the coverage, the employee will readily notice any change in his or her paycheck caused by medical deductions. The comparison can be made in cost per month, cost per paycheck, or cost per year, as long as there is an apple-to-apple comparison between sending and receiving organizations.

Will it be similar/better/worse than my current coverage?

A number of factors may be considered to answer this question—variety of plan types, deductibles, out-of-pocket maximums, and co-pays, to name a few. Variety of plan types refers to the selections available to employees, such as basic indemnity plans, Preferred Provider Organizations (PPOs), or Health Maintenance Organizations (HMOs). Are there out-of-network and in-network differences in cost? For example, an employee visiting an in-network physician may have a co-pay of $10 with the sending company, and a co-pay of $20 with the receiving company.

Other elements to consider include whether coverage is provided to domestic partners. Moving from a plan that does cover domestic partners to one that does not may raise concerns from some employees. Also, in certain geographic locations one company may provide better medical coverage options than the other. For example, when a sending organization offers HMO options in a remote employee site, but the receiving organization does not offer that option. If there are enough critical employees in such a location, the receiving company may want to reconsider offering an HMO option; if not, it will simply need to make sure that employees receive appropriate communications regarding options that are available. Another point to consider is any preexisting condition clauses that are in effect. If an employee has coverage for an ongoing or terminal condition, you need to understand how that will be treated in the receiving organization.

As you complete the Benefits Comparison Chart under medical coverage, you will become aware of potential issues. See Figure 3.1 for a sample section of the chart completed by both a sending and receiving company. In this example, employees will be moving from a medical coverage option available at three different premium levels (Employee Only, Employee Plus One, and Family Coverage) to a coverage option with only two different premium levels (Employee Only and Family). The area of concern is for those employees who are currently covering one dependent. Individual premium costs will rise significantly when they move to family coverage. The sample also points out that all employee premiums will increase.

Figure 3.1 Sample Comparison: Medical Coverage

Benefit	Sending Company	Receiving Company	Discussion Points
Medical Coverage			
Is coverage provided?	Yes	Yes	
When will coverage begin? (Special Eligibility Rules)	N/A	On announcement day	
When is Open Enrollment? (Plan Year)	7/1	1/1	
Is the plan a Premium Insurance Contract or an Administrative-Services-Only Plan? (Self-Insured?	Self-insured	Premium insurance	
PLAN 1	**POS (Provider)**	**POS (Provider)**	
Normal eligibility	1st of month following 60 days of employment—FT Reg	Date of hire—FT Reg	Immediate coverage
Cost of insurance Premiums	EE/EE + 1/Family per month	EE/Family per Month	No EE + 1
Employer contribution	121.98/259.77/320/67	100.80/300.00	
Employee contribution	49.80/130.11/177.80	72.00/204.00	EE cost concerns
In network			
Deductibles			
Copays	$10 office, 90% in Hospital	$15 office, $250 Hospital copay	
Coinsurance	100%	100%	
Out-of-pocket max	$1,000/$2,000/$3,000	None	
Out of network			
Deductibles	$300/$600/$700	$500/$1000	
Coinsurance	70%	70%	
Out-of-Pocket max	$3500/$7000/$7500	$3000/$6000	
Plan max	$1,000,000 Lifetime	$2,000,000 Lifetime	
Preexisting condition clause	None	None	
Other comments			

During this assessment phase, it is important just to note the differences. Decisions regarding what to do about the variances can be made after the full assessment is complete.

Dental and Vision Coverage

Dental and vision insurance may be a critical issue to some employees, but it certainly is not as essential to the general employee population as medical coverage. In my opinion, moving a group of employees to an organization that does not provide dental and vision coverage would cause some strife but would not create the turnover risks associated with loss of medical coverage. Similarly, an interruption in dental and vision coverage would not be as critical; nor would variances in employee contributions and maximum limits. However, as discussed earlier, it is important to identify the differences and be open and honest with employees about how those differences will impact them.

In the example shown in Figure 3.2, there are again two concerns; only two of the three premium options are available in the receiving company (no Employee Plus One), and the overall cost to employees will rise, as shown in the Employee Contribution section.

Life Insurance

When comparing life insurance coverage, be sure to compare the level of coverage offered and the premium amounts paid by the employer versus the employee. For example, the sending organization may provide life insurance equal to the base salary; the receiving organization may not offer any life insurance. Also, what additional options are available for purchase by employees? Employees may be able to purchase additional self-coverage, accidental death and dismemberment insurance, and coverage for other dependants. These options should be noted for both the sending and receiving organizations.

Figure 3.2 Sample Comparison: Dental Coverage

Benefit	Sending Company	Receiving Company	Discussion Points
Dental Coverage			
Is coverage provided?	Yes: DMO and PPO	Yes: DMO, PDO, Traditional	
Normal eligibility	1st of month following 60 days of employment	Date of hire	Immediate coverage
Cost of insurance Premiums	EE/EE + 1/Family per month	EE/family per month	
Employer contribution	13.34/27.72/38.50	12.95/40.95	No EE + 1
Employee contribution	4.42/9.23/12.83	5.55/17.55	EE cost concern
Deductible			
Coinsurance	100%/80%/50% R&C	DMO: 100%/60%; PDO & traditional: 100%/80%/50%	
Nonorthodontic plan limits	PPO only: $1,000 annual maximum	PDO & traditional: $1,500 annual max.; DMO: no maximum	
Orthodontic plan limits	DMO: employees and dependents; PPO: dependents only	PDO & traditional: $50 deductible, $1,500 lifetime maximum; DMO: no maximum; employees and dependents eligible for all plans	

In Figure 3.3 both the sending and receiving companies offer employee life insurance indexed to the amount of the employee's annual base salary. Employees can purchase additional insurance at their own cost. The only significant difference is that the receiving company doesn't offer Dependant Life Insurance or the Accidental Death and Dismemberment Insurance. These are not serious significant losses, but they should be noted for later decision making and communication.

Disability Insurance

A comparison of disability insurance coverage, which provides income protection, includes both temporary disability and long-term disabil-

Figure 3.3 Samp e Comparison: Life Insurance

Benefit	Sending Company	Receiving Company	Discussion Points
Life Insurance (Preretirement)			
Employee life insurance	1 × base, employer-paid; 1–4 × base, $100,000 flat, $200,000 flat	1× base, employer-paid; 1–3 × base, employee-paid option	
Maximum coverage	$500,000	$800,000 combined	
Eligibility	1st day following 60 days	Date of hire	
Employer contribution	1× base, employer-paid 100%	1× base, employer-paid 100%	
LTD continuation	Yes, without premium	Yes, employer-paid; Optional supplemental LTD (for those earning $50K+): employee-paid, cost based on income	
Dependent life insurance	Spouse: $20,000, 1× salary to $50,000; Child: $4,000	None offered	EE loses benefit option
Employer contribution			
Employee contribution	100%		
Additional life insurance	AD&D: basic & optional	None offered	EE loses benefit option
Employer contribution			
Employee contribution	100% for optional		
Other comments			

ity. Companies may provide various disability insurance options ranging from no coverage to programs fully funded by the employer. The Benefit Comparison Chart will help you examine the difference between the sending and receiving organizations. Figure 3.4 helps illustrate the variances that may be encountered.

Eligibility rules The sending company shows provision of coverage after 60 days of employment, and the receiving company provides coverage after 90 days of employment. Employees who were hired by the sending company in the 90 days prior to the merger/acquisition will be negatively impacted by the longer wait. So, although this isn't

Figure 3.4 Sample Comparison: Disability Insurance

Benefit	Sending Company	Receiving Company	Discussion Points
Temporary Disability			
Type of plan	Short-term disability	Short-term disability	
Eligibility	1st month following 60 days	1st day of 4th month	60 vs. 90 days
Elimination period	5 days except for maternity, accident, and surgery	14 days	5 vs. 14 days
Duration of payments	13 weeks	26 weeks	13 vs. 26 weeks
Benefit formula	100%	100%/50%, based on length of service	
Employer contribution	0%	100%	
Employee contribution	100%	0%	Employer paid
Long-Term Disability			
Eligibility	1st month following 60 days	Date of hire	Coincides with STD
Elimination period	13 weeks	180 days	
Employer contribution	100%	100% basic, employer-paid	
Employee contribution	0%	0%	
Benefit formula	60%	60%	
Social security offset	Primary	Primary	
Maximum benefit	$10,000 per month	$10,000 per month	
Minimum benefit	None	None	

a significant variance to most employees, it is significant to the people who are in that window of tenure.

Elimination period This refers to the number of days of absence before the insurance begins to pay income protection. The sending company's short-term disability (STD) coverage begins after five days of illness, whereas the receiving company covers after 14 days.

Duration of payments STD for the sending company covers employees for 13 weeks, and that for the receiving company covers for 26 weeks. Both, however, coincide with the beginning of long-term disability (LTD) payments.

Benefit formula This number represents the percentage of salary covered by insurance during disability. This may be a percentage of income up to a maximum level—for example, 75% or 100% for STD. LTD may be a lesser percentage and will often work in conjunction with Social Security and other offsetting benefits.

Pension Plans

A pension plan, as defined by ERISA, is "any plan, fund, or program, which provides retirement income to employees or results in a deferral of income by employees for periods extending to the termination of employment (Coleman, 1989). These plans may be in the form of defined benefit plans, defined contribution plans, profit sharing, savings plans, cost or deferred arrangements such as 401(k), stock plans, and simplified employee pensions (SEPs). This comparison views each plan from the perspective of impact on the employees. As was stated in Chapter 2, you will want a qualified ERISA attorney to thoroughly review each plan; this material is *not* intended to replace counsel on legal matters.

When comparing types of plans available to employees in the sending and receiving organizations, the first review should be "big-picture." In other words, you will want to identify any major adds or take-aways—that is, "Does a pension plan of some type exist in both the sending and receiving organizations?" Then compare the elements of each plan that provide additional value for the employees. This will prepare you to answer employee questions such as the following:

- Are there matched employer contributions?
- If so, what is the match?
- What levels of unmatched employee contributions are allowed?
- What are the vesting° rules?

° Vesting is the process by which an employee, after satisfying service requirements, acquires a nonforfeitable right to pension benefits even if he or she leaves the job before retirement. Employee contributions to a plan are always 100% vested.

Figure 3.5 Sample Comparison: Pension Plans

Benefit	Sending Company	Receiving Company	Discussion Points
Pension Plans			
Type of plan	401(k) and potential profit sharing	401(k) and potential profit sharing	
Eligibility	Age 21, 1st of month following 30 days	1st of month following six months of employment	Gap for 2- to 5-month EEs
Matched employer contribution	1–3%: up to 50% based on years of service plus profit sharing match based on company performance	1–4%: 50 cents on the dollar; 5–6%: 50 cents on the dollar up to 4% plus 25 cents on the dollar for the next 2%; match is quarterly	Good news for EEs: more match.
Unmatched employee contribution	Up to 15%	Up to 10%	Reduction
Vesting (years of service/% vested)	1/0%, 2/25%, 3/50%, 4/75%, 5/100%	1/0%, 2/50%, 3/100%	Good news for EEs: faster vesting
Investment Options			
Employee contribution	13 funds with [fund manager]	8 funds with [fund manager]	
Employer contribution	Same as above	Same as above	
Loan Provision	Yes	Yes	

- What are the investment options?
- Are there any loan provisions if I need access to the money?

In Figure 3.5, please note that there is both good news and bad news for employees. The eligibility requirements increase from 30 days at the sending company to six months at the receiving company. Also, employees in the receiving company can contribute only up to 10%. However, there is a better match of employer contributions and faster vesting rules at the receiving organization.

Overall, I would anticipate that the employees will positively receive to the new plan, given the improved company match and faster vesting; however, we will address further transition strategies in Chapter 5.

Stock/Stock Options

There are two elements to review in this section. First, you will want to examine what stock and stock options, if any, have been granted to transferring employees and how the transfer will affect them. Second, you should review the receiving organization's policy for granting stock and options compared to those of the sending organization.

The first part of the exercise should create an understanding of the stock or options that transferring employees already have. There are questions employees may ask, such as, "What will happen to my stock?" and "Will I still be able to exercise my stock options?"

The purpose of the second part is to note whether employees may be gaining or losing a benefit going forward. "Will I be able to purchase stock on the acquiring company?" and "Will a stock purchase program or option program be available?"

See Figure 3.6, in which the sending company provided a stock option program based on level of position, whereas the receiving company provided a stock purchase program for all employees. It is a comparable benefit offering going forward, but the anticipated question would pertain to the handling of unvested stock options by those employees who had received options from the sending company.

Figure 3.6 Sample Comparison: Stock/Stock Options

Benefit	Sending Company	Receiving Company	Discussion Points
Stock Options			
Type of plan	Stock option plan	Stock purchase plan: purchase at 85% of fair market value	Unvested options?
Amount	Level 1: 50; Level 2: 100; Level 3: 150; Level 4: 200; Executive: 2,000 to 100,000	Yearly offering periods: 1/1–6/30 and 7/1–12/31; up to 10% of compensation up to $75,000	
Eligibility	Two annual issue dates after 6 months of employment		

Paid Time Off

Paid Time Off may include vacations, holidays, and personal and sick days. It is important to compare an overall picture of all paid time off to establish the full value offered to employees for these benefits. I recommend comparing separately the total days allotted for expected time off, not to include the unusual or special situations that may be allowed through policies on jury duty or bereavement. In the example shown in Figure 3.7, the sending company allows a total of 28 days off per year for a full-time employee. The receiving company allows 25 days off for nonexempt and 16 days plus unmeasured sick and personal time for exempt. Two points are highlighted for further discussion: There is a slight reduction in paid days off for nonexempt, and exempt employees will move to a nonmeasured sick time policy. One is negative news for the employees; the other can be presented as positive.

Other points to watch include when and how accruals take place, accrual rates by length of service, and payout policies upon termination. Some companies may accrue days off on a monthly basis, as in the examples in Figure 3.7. Others may allot vacation and personal time at the beginning of the calendar year or on anniversary dates. Again, just make a note for later communications.

Miscellaneous

Companies may provide various benefit programs in addition to those discussed above. These additional benefits can be listed in the Miscellaneous Section for comparison between the sending and receiving companies. Review Figure 3.8; there is one significant difference that will mean the loss of a benefit to the transferring employees. This difference will impact those employees who are pursuing continuing education and utilizing tuition reimbursement benefits. The other benefits are comparable in this example.

Figure 3.7 Sample Comparison: Paid Time Off

Benefit	Sending Company	Receiving Company	Discussion Points
Paid Time Off			
Vacation			
Amount	0–4 years: 6.667 hours/month, 80 hours/year; 5–9 years, 10.00 hours/month, 120 hours/year; 10 or more years: 13.325 hours/month, 160 hours/year	0–3 years: 6.667 hours/month, 80 hours/year; 4–7 years: 10.00 hours/month, 120 hours/year; 8–9 years: 12.0 hours/month, 144 hours/year; 10 or more years: 13.325 hours/month, 160 hours/year	Some improved accruals, depending on length of service.
Eligibility	Accrual begins on 1st month of employment	Accrual begins on 1st month of employment	
Holidays			
Amount	9 per calendar year	6 per calendar year	Reduction
Eligibility	Actively employed day before and after holiday	Actively employed day before and after holiday	
Personal/Sick Time			
Amount	9 days per year (6.0 hours per month)	Sick time: 4 hours per month (nonexempt) plus 3 personal holidays	Nonexempt from 54 hrs to 72 hrs.; exempt moving to not measured
Eligibility	Accrual begins on 1st month of employment	Sick time for nonexempt-accrual begins end of 1st calendar month; personal holidays: 1 granted on 1/1, 2 granted on 7/1	
Bereavement			
Amount	3 paid days for immediate family	3 paid days for immediate family	
Jury Duty			
Amount	Up to 10 working days	Pay for the length of time scheduled to serve	

Review and Summarize Differences

After completing the Benefits Comparison Chart, you should consider the pluses and minuses for the transferring employees. It is through this big-picture view that you can better understand whether employees will be experiencing an overall decrease or increase in benefit

Figure 3.8 Sample Comparison: Miscellaneous

Benefit	Sending Company	Receiving Company	Discussion Points
Miscellaneous			
Tuition Reimbursement			
Amount	$5,000/year for bachelors; $8,000/year masters	None	Loss of tuition reimbursement
Eligibility	After 6 months of service		
Employee Assistance Program	Assistance with personal/ confidential problems; toll-free number	Assistance with personal/ confidential problems; toll-free number	
Employee Purchase Program	Eligible employees can purchase new product at discounted prices and pay through payroll deductions.	Eligible employees can purchase new and used products at discounted prices	
Flexible Spending Account			
Health care	Allows $200 to $2,000 annual pretax deductions	Allows $130 to $2,500 annual pretax deduction	
Dependent Care	Allows $200 to $5,000 annual pretax deductions	Allows $130 to $5,000 annual pretax deduction	

value. If the major benefit differences have been noted under Discussion Points, it will be easier to compare value differences. See Template 3.2, which can be used to record a synopsis of benefits variances.

Figure 3.9 is a completed summary prepared from the previous examples of the Benefits Comparison Chart. As can be seen, there are both positives and negatives for the transferring employees. There are two negative factors that may cause employee concern among the general population: an increase in medical coverage premiums and the loss of three holidays. One other negative that would impact a limited population is the loss of tuition reimbursement. Although it's not used by everyone, it will be of high concern for those who are completing degrees and taking advantage of their current benefit. On the other hand, there are two areas where more of the general population will be impacted positively: Short Term Disability at the receiving company is provided at no cost, and there is a better employer match for 401(k) participants. Overall, this example reveals a fairly comparable benefit package for transferring employees.

Figure 3.9 Sample Summary of Benefits Comparison

Benefit	Notes	Overall Impact
Medical Coverage	Immediate coverage for EEs with < 60 days Higher cost: $266.40 EE Annually: $886.68 EE + 1 $314.40 Family	+ – **Generally negative for overall population due to increased premium expense**
Dental and vision	Immediate Coverage for EEs with < 60 days. Higher cost: not significant except Annually: $99.84 EE + 1	+ – **Comparable**
Life insurance	EE loses Dependent Life and AD&D options	– **No significant problem**
Disability	Coverage less Employer pays premium Move to LTD in 26 weeks rather than 13	– + **Generally positive because employer paid**
Pension plans	2- to 5-month EEs must suspend until 6 months service Better match at receiving company Less unmatched contribution allowed: 15% to 10% Faster vesting: 3 years = 50%, 3 years = 100%	– + – + **Generally positive**
Stock/stock options	Stock option vs. stock purchase at discount	**Comparable**
Paid Time Off	Vacation: Years 4, 8 9 improved accrual Holidays: from 9 to 6 Personal/sick: Non-Exempt 9 days Exempt Moving to Not Measured	= – **Comparable** **Comparable** **Overall negative, due to lost holidays for general population**
Miscellaneous Tuition Reimbursement	From $5K/$8K annual to no benefit	– **Overall negative for employees participating**

The Summary of Benefits Comparison is helpful in preparing for an executive review, as well as in developing the Compensation and Benefits Strategy. Keep in mind as you summarize that your reaction to a particular reduction in benefit may be, "It's no big deal." But from experience, I have learned that the little, hidden, "unimportant" takeaways can alienate an employee population.

Summary

In Step 3 you complete the Benefits Comparison Chart; it walks you through the review and discovery process. It is then helpful to summarize the major differences between the two organizations. By completing these assessment actions, you should be better prepared to determine strategies and communications for a smooth employee transition. The benefit elements are a key factor in successfully integrating employees into an organization. Don't underestimate the importance of a thorough comparative review. You will find it to be a wise investment of your time as you progress through the acquisition/merger process.

THE EMPLOYEE PERSPECTIVE: THINK AGAIN

Background

A privately held technical services company with employees located in 40 geographic sites throughout the United States was acquiring a smaller organization with 100 employees in the Portland, Oregon, area. The employees of the selling company were technical engineers who had previously had a comprehensive benefit package. They chose from a full array of insurance coverage programs: medical, dental, disability, and life, as well as a 401(k) plan and generous paid-time-off policies. The average age of the employee population was young—approximately 25 to 35 years old—and many had spouses and young children.

The First Employee Meeting: The Vision

The regional vice president from the acquiring company organized a meeting with all the employees who were being transferred. He invited the senior management from the selling organization as well as the local manager and a human resource representative from the acquiring organization. In preparing for the meeting, he asked that the presentations focus on the reason for the acquisition, the synergy expected, and the anticipated advantages for the customers and the employees. Human Resources was instructed not to get into benefits details. "Employees won't be interested in hearing that kind of detail at this time. They want to hear about the vision of the company and the market advantages that will be gained."

The First Employee Meeting: Reality

The meeting got off to a positive start. Employees were receptive to the changes they were experiencing: the acquiring company had a good reputation in the market; employees heard and understood the advantages to the customer; they believed the vision; and they liked the open forum meeting. But then the flood of questions began:

- What kind of medical coverage will we have?
- My wife is pregnant; what will happen when she's hospitalized?
- My son was about to get braces on his teeth; will I still have dental coverage?
- I was scheduled for foot surgery; will there be any disability coverage?
- I have a vacation scheduled next month; what happens to my vacation time?
- I have a loan against my 401(k) plan; what happens with that?
- I'm taking classes at the community college; is there any tuition reimbursement?

Lesson Learned

Employees certainly want to know the business direction, the rationale for an acquisition, and the vision of the future, but they also are think-

ing, "What about me?" They need to be assured about the basic security issues, and this does include benefits. Once upon a time, we referred to them as fringe benefits. Now they have become central to the employment package, and employee concern about the full array of benefits available to them has heightened to an unprecedented level. The integration of employees into a new organization will go more smoothly if the benefit concerns are recognized and addressed proactively.

UNNECESSARY ANXIETY

Background

A distribution center with over 500 employees was being divested. The center was located in Kentucky, and for over eight years the employees had been provided three health care options: an indemnity program, a designated provider program, and a health maintenance organization (HMO). Approximately 95% of the employees used the HMO, whose reputation in the local market was excellent. Through word-of-mouth new employees heard that the HMO provided great service, and the premiums and copays were slightly better than the other options. Although the other options continued to be offered, the HMO was the hands-down choice of employees.

Management Roundtable

As the divestiture approached, the acquiring company sent a team of executives to host a roundtable discussion with key members of the distribution center's management. Those who had been disclosed on the upcoming divestiture were particularly savvy managers who knew their employees well. When discussing the concerns and issues that might arise in the upcoming transition, the local managers insisted that the HMO option would be a big deal to their employees. The acquiring company did not previously offer the HMO and was reluctant to add it as an option for this one location. Local management and human resources

stood firm and were able to convince the acquiring HR organization that the HMO was a low-cost option for the company, and that it would go a long way toward employee satisfaction. Adding an HMO was a small price to pay for reducing the anxiety of over 500 transferring employees.

Lesson Learned

There is a two-part lesson here: (a) Listen to the people who know their employees best; and (b) if there are strong emotions attached to a particular benefit, it may be worthwhile for the acquiring organization to accommodate the change or addition.

Individuals face a great deal of personal anxiety associated with changing employers during an acquisition or merger. As part of the assets being moved from one company to another, they feel out of control, like they are merely pawns in a chess game. They hear rumors that their jobs are not secure, that hours may be cut, or that overtime will be eliminated. Removing the anxiety over benefits can help them deal with the many other concerns. Obviously, it's not always possible, but in a case such as this one, the added medical option provided a solution with a high return and a small cost.

Step 3: Compare Benefits and Analyze Differences in Value

Task Checklist

_____ Complete Benefits Comparison Chart for sending company.

_____ Complete Benefits Comparison Chart for receiving company.

_____ Compare and assess differences or concerns under Discussion Points.

_____ Summarize differences.

Template 3.1 Benefits Comparison Chart

Benefit	Sending Company	Receiving Company	Discussion Points
Medical Coverage			
Is coverage provided?			
When will coverage begin?			
When is Open Enrollment?			
Premium Insurance Contract or Administrative-Services-Only Plan? (Self-Insured?)			
PLAN 1			
Normal eligibility			
Cost of insurance premiums			
Employer Contribution			
Employee Contribution			
In network			
Deductibles/copays			
Coinsurance			
Out-of-pocket maximum			
Out of network			
Deductibles			
Coinsurance			
Out-of-pocket maximum			
Plan maximum			
Preexisting condition clause			
Other comments			
PLAN 2			
Normal eligibility			
Cost of insurance premiums			
Employer Contribution			
Employee Contribution			
In network			
Deductibles/copays			
Coinsurance			
Out-of-pocket maximum			
Out of network			
Deductibles			
Coinsurance			
Out-of-pocket maximum			
Plan maximum			
Preexisting condition clause			
Other comments			
Dental Coverage			
Is coverage provided?			
When will coverage begin?			
Normal eligibility			
Cost of insurance premiums			
Employer Contribution			

Template 3.1 (continued)

Benefit	Sending Company	Receiving Company	Discussion Points
Employee Contribution			
Deductible			
Coinsurance			
Nonorthodontic plan limits			
Orthodontic plan limits			
Other comments			
Vision Coverage			
Is plan provided?			
Cost of insurance premiums			
Benefit provided			
Life Insurance			
Employee life insurance			
Maximum coverage			
Eligibility			
Employer contribution			
Employee contribution			
LTD continuation			
Dependent life insurance			
Employer contribution			
Employee contribution			
Additional life insurance			
Employer contribution			
Employee contribution			
Travel accident plan			
Employer contribution			
Employee contribution			
Other comments			
Temporary Disability			
Type of plan			
Eligibility			
Elimination period			
Duration of payments			
Benefit formula			
Employer contribution			
Employee contribution			
Preexisting condition clause			
Long Term Disability			
Eligibility			
Elimination period			
Employer contribution			
Employee contribution			
Benefit formula			
Social Security offset			
Maximum benefit			
Minimum benefit			

Template 3.1 (continued)

Benefit	Sending Company	Receiving Company	Discussion Points
Pension Plans			
Type of plan			
Eligibility			
Matched employer contribution			
Unmatched employee contribution			
Vesting (years service/% vested)			
Investment options			
Employee contribution			
Employer contribution			
Loan provision			
Stock/Stock Options			
Type of plan			
Eligibility			
Vesting			
Paid Time Off			
Vacation			
Amount			
Eligibility			
Holidays			
Amount			
Eligibility			
Personal/sick time			
Amount			
Eligibility			
Bereavement			
Amount			
Jury duty			
Amount			
Miscellaneous			

Template 3.2 Summary of Benefits Comparison

	Summary of Benefits Comparison	
Benefit	Comments	Overall Impact
Medical coverage		
Dental and vision		
Life insurance		
Disability		
Pension plans		
Stock/stock options		
Paid time off		
Miscellaneous		

4

Step 4

Compare Compensation and Analyze Differences in Value

"I don't care who cuts my paycheck, just have it to me on Friday."

—An acquired employee

Chapter Goal

This chapter provides a guide to review job titles, levels, responsibilities, and salaries in order to compare compensation practices between the sending and receiving organizations. You will ultimately need to determine if annualized earnings are comparable and to identify problem positions. To help you, we review general work and pay practices, job matching and analysis, exempt/nonexempt classifications, and salary ranges. Additional comparisons, such as wage increase opportunities, lead and shift differentials, and other compensation elements, are provided.

As with Chapter 3, readers will have an opportunity to complete a comparison chart of the two organizations, looking for incongruent practices that may cause employee concern or dissatisfaction. (See www.hr-entegration-tools.com for setting soft copy templates.) The goal is to alert

readers to the potential problems—again an assessment methodology that will provide data for Chapter 5, when we will establish the actions that will be taken to avoid or minimize problems. One case study is provided to illustrate the change of exempt status to nonexempt and how the situation can be marketed to employees as a potential positive.

E.Q. (Emotional Quotient) at an All-Time High

If there's one thing that can get an entire employee population exploding with emotion, it is messing with their paychecks. Certainly the benefits issues are critical to employee satisfaction, but compensation can be the ultimate detonator.

Upon hearing about a merger or acquisition, the number one thing employees will ask is, "Will I still have a job?" And close behind that is, "Will my compensation package be comparable?" Perhaps they won't use those exact words, but a combination of bullet-fast questions:

- Will I be paid the same salary?
- Will I still get overtime?
- Can I still get a bonus?
- I was due for a salary review next month; what's going to happen with that?
- I got paid every Friday, when and how often will I be paid in the future?

These are only the issues you need to address from the employee perspective of those being transferred from one company to another. To add to the challenge, if you are with the receiving organization, you must also consider the equity and fairness of the compensation package compared with that of the existing employees in the receiving company. This chapter will help you walk though the comparison of the two organizations so that you can assess the problems and troubleshoot the resulting issues.

Completing the Compensation Comparison Chart: When, How, and Who?

As with the benefits comparison, the compensation comparison may begin during the due diligence process or in the early stages of the transaction. Job titles, job descriptions, salary grades, and ranges can usually be reviewed early in the process. However, an actual review of individual employee compensation may not be disclosed until later in the process. Comparison of job categories and salary grades is critical for an overall equity assessment, whereas pay practices and work schedules should be compared to look for transition issues that may concern employees. Individual comparisons are needed to establish exceptions and to later determine what to do about those exceptions. Ideally, the compensation subject-matter experts from both the sending and receiving companies will complete Template 4.1, which is much like the Benefits Comparison Chart.

The critical nature of the compensation comparison may vary depending on whether an acquired group of employees will continue to operate in a stand-alone function or will be incorporated into the receiving organization. In other words, if the transferred employees work in a job function that didn't previously exist in the receiving organization, job titles and salary grades may be left as is. On the other hand, if the newly acquired employees are doing work that is the same or similar to employees already existing in the receiving organization, it is critical that there be equity between the two.

What are the Major Components of the Compensation Comparison?

The following elements of compensation will be reviewed to compare sending and receiving company practices and policies:

- Work/Pay practices: work week, timesheets, pay days, auto deposits, other deductions
- Exempt versus non exempt job categories
- Job grades and salary/wage ranges
- Bonus/incentive opportunities
- Wage/salary increase opportunities
- Miscellaneous: lead differential, shift differential, travel pay, on-call/stand-by pay

This chapter describes how each of these elements should be reviewed as you work through the Compensation Comparison Chart. Samples of completed sections of the chart will be provided to illustrate better why additional communications and actions may be needed for a smooth employee integration.

Work/Pay Practices

The Work/Pay Practices section is important for communication purposes. Obviously, the receiving company won't want to change its existing practices unless they are truly unworkable or outdated, but I include this section to ensure that these issues are considered when creating the employee communication documents. Each item is not likely a big deal as long as employees are made aware of the differences.

Frequency of Paychecks can be an item of concern in this section. In the example shown in Figure 4.1, employees are moving from a weekly paycheck to a biweekly paycheck; both companies have a one-week lag between actual hours worked and pay for those hours. The biweekly pay may be an emotionally charged issue because employees have learned to budget their spending practices based on weekly paychecks. Biweekly pay is a common practice, however, and the receiving company would need to explain carefully to employees how and when the transition will occur.

Figure 4.1 Sample Comparison: Work/Pay Practices

Benefits	Sending Company	Receiving Company	Discussion Points
Work/Pay Practices			
Workweek	Sunday to Saturday; 40 hours/week	Saturday to Friday; 40 hours/week	1-day difference
Frequency of paychecks	Weekly, 1week lag	Biweekly, 1week lag	To biweekly, all EEs
Timesheet requirements	All EEs	Nonexempt only	
Pay days	Every Friday	Every other Friday	Move to biweekly
Auto deposit	Yes	Yes	
Other deductions	Credit union, mortgage service, EE purchase	Credit union	Loss of mortgage service and EE purchase

In the example, the change in workweek from a Sunday start-of-week to a Saturday start-of-week will cause a change in timesheet reporting and a delay in a day of pay as it moves to the next week—typically not a big cause of concern for employees. Under Other Deductions, the sending company provides a credit union, mortgage loan service through a third party, and payroll deductions for employee purchases. The receiving company has a different credit union and no deduction options for mortgage services or employee purchases. The items are noted for later strategy consideration.

Other workweek issues that should be reviewed during the compensation comparison exercise are the total number of hours scheduled and flex time options. Whenever employees are working an alternate schedule and are moved to a less flexible schedule, or vice versa, the transition strategy must be examined carefully; for example, a 36-hour workweek moving to a 40-hour workweek, or four 10-hour days moving to five 8-hour days. A case study in Chapter 5 illustrates a transition strategy for such a situation.

Job Match and Analysis

It is important to analyze overall job functions in both the sending and receiving companies in order to match common positions and deter-

mine how functions and responsibilities may change as employees move to a new organization. This may not be necessary if a merger is taking place that results in two stand-alone divisions that have completely separate functions and jobs. For example, if a snack-food company acquires a fast-food restaurant chain, the two organizations will not be integrating the workers into the same jobs; therefore, it is more likely that the employees can simply be transferred to the acquiring organization in their existing job titles, pay ranges, and so on. This step, however, is critical if the transitioning employees are performing functions similar to those of the existing employees in the receiving organization, (e.g., a bank acquiring another bank). I am assuming the latter is the case in the following discussion.

This review will require information that was gathered in the Due Diligence process: job descriptions, job grade and salary range data, and compensation plans. The Compensation Comparison Chart will be filled in with information from both organizations in a vigilant attempt to match jobs as closely as possible.

Exempt and Nonexempt Job Categories

The first task is to see that jobs are categorized in a like manner. All the exempt and nonexempt jobs should be listed by the sending and receiving organizations. The titles may be different (the job descriptions will help make the comparison), but look for similar job categories to be in the same Fair Labor Standards Act (FLSA) group; that is, sales manager in exempt; shipping clerk in nonexempt. If the organizations have multiple job categories, it may be more efficient to compare the documentation provided during due diligence than to transfer it to the Compensation Comparison Chart. In that case, simply review the data as described and only use the chart sample to understand the process better.

As you see variances, review the job descriptions to see how the functions are differentiated. In Figure 4.2, note that the sending organization has sales support specialist listed as nonexempt, whereas the receiving organization has the client support representative listed as exempt. The job descriptions should reveal that the client support position in the receiving organization has greater responsibilities than does the sales support position in the sending organiza-

Figure 4.2 Sample Comparison: Job Analysis

Sending					Receiving				Discussion Points
Job Analysis									
Exempt Functions	**Job Title**	**Grade**	**Salary Range**	**Bonus**	**Job Title**	**Grade**	**Salary Range**	**Bonus**	
Management	General Manager	26	60K/100K	20%	District Manager	N/A	50K/100K	25%	More bonus opportunity
	Customer Service Manager	22	40K/70K	10%	Client Care Manager	N/A	35K/70K	20%	in all positions (++)
	Administrative Manager	22	40K/70K	10%					
Sales	Account Representative	S50	25K/50K	Commission	Sales Representative	N/A	35K/70K	40%	Commission to bonus
					Client Support Representative	N/A	20K/40K	$5K	Sales support exempt?
Professionals	Senior Design Engineer	26	60K/100K	0					
	Design Engineer	24	50K/90K	0	Product Consultant	N/A	45K/90K	10%	Two levels to one
Supervision	Administrative Supervisor	18	25K/55K	0	First Line Supervisor		25K/50K	10%	
	Warehouse Supervisor	18	25K/55K	0					

Sending					Receiving				Discussion Points
Nonexempt Functions	Job Title	Grade	Wage Range	Bonus	Job Title	Grade	Wage Range	Bonus	
Technicians	Senior Technician	N8	12.00/20.25	0					
	Technician	N6	9.15/15.50		Product Specialist	N/A	8.25/21.10	0% to 8%	Two levels to one
								Co Perf	Move to bonus opportunity (+)
Administration and Support	Sales Support Specialist	N5	8.75/14.50	0					
	Secretary	N4	7.00/12.60	0	Administrative Coordinator	N/A	5.35/14.25	0% to 8%	
	Receptionist	N2	5.25/9.45	0				Co Perf	
Parts and Distribution	Senior Shipping/ Receiving Clerk	N5	8.75/14.50	0	Center Coordinator	N/A	5.35/14.25	0% to 8%	
	Shipping/Receiving Clerk	N3	5.75/10.50	0				Co Perf	

tion—perhaps duties that require more direct response to customers without supervision or direction from the sales representative. For now, this difference is noted in the Discussion Points column for later consideration when we will need to determine how to transition these employees.

Job Grades and Salary/Wage Ranges

After establishing job matches, it is time to compare job grades and salary ranges. Grades may or may not correspond because two totally different grade evaluation systems may be used in the two organizations. If, however, two comparable sets of job grades are used, this information may be useful.

The salary and wage ranges will indicate the minimum and maximum pay for each job. When two organizations pay a comparable wage for similar positions, the ranges will confirm that you have made a good match of positions between the sending and receiving companies. However, wherever you see wildly varying ranges, you may have mismatched the jobs, or the two organizations may have assigned different responsibilities to the same or similar job titles. It is more difficult to assess salary differences when one organization has created specialists in a function while the other has created generalists. In such cases, comparing the levels of difficulty or required expertise will help the job matching process.

You may also find that one organization has fewer job levels but broader ranges. For example, see Figure 4.2, where the sending organization has senior technician and technician whereas the receiving organization has only one level of product specialist. In this case, employees moving into the product specialist job should fit into the range because it is wide enough to accommodate the two narrower technician ranges.

If you find that one organization has much lower ranges than the other, check the Bonus/Incentive Opportunity differences. One organization may have a more leveraged compensation strategy. Base salaries are therefore lower, but total compensation is comparable. Reviewing

and matching the jobs between the two organizations will make the task of placing each individual into a specific job much easier.

Bonus/Incentive Opportunities

Bonus and incentive earnings can vary greatly from one organization to the next. While one may have a highly leveraged compensation strategy, the next may have virtually no at-risk income. Because strategies can be so different, it is important to review the leveraged opportunities by position to ensure you are comparing total compensation between the two companies.

Note in Figure 4.2 that the sending organization provides a bonus only at the management levels, whereas the receiving organization has some level of bonus in all positions. This should be noted in the Discussion Points, which will be used in Chapter 5 to develop the detailed strategy for transition.

Wage and Salary Increase Opportunities

Employees generally have some level of expectation about when their next pay increase will take place. The receiving company will not necessarily follow the same increase schedule as the sending company, and most employees understand the reality of differences between two companies. However, to prepare for the transition proactively, it is necessary to know the differences and similarities between the two organizations on this point.

To understand the significance of the differences that may be found better, see Figure 4.3. In this example, employees will move from an annual review process to a six-month review process, which should be perceived positively. The timing will be different, however, moving from anniversary dates to set calendar dates for all employees. In addition, promotions will move to competency-based job advancement. For the most part, this looks like positive news for the employees.

Figure 4.3 Sample Comparison: Wage/Salary Increase Opportunity

	Sending			Receiving			Discussion Points
Wage/Salary Increase							
Type of Increases	**Eligibility**	**Frequency**	**When**	**Eligibility**	**Frequency**	**When**	
Merit	Performance review	Annual	Service date	Performance review	6 months	1/1 and 7/1 or 4/1 and 10/1	Annual to 6 months; change of dates
Adjustment	Equity, relocation, new duties without promotion	As required		Equity, relocation	As required		
Promotion	Grade level increase	When earned		Competency-based	6 months	Opposite: 1/1 and 7/1 or 4/1 and 10/1	To competency-based
Cost of living adjustment	N/A			N/A			
New hire policy	Performance review	One time	120 days after hire	Performance review	One time	90 days after hire	120 to 90 days
Other							

Miscellaneous

Other factors that impact an employee's total compensation package can vary greatly from one organization to another; they may exist in one company, may not exist in another, or may be compensated at a completely different level. Some of those factors are included in the following discussion and are listed in Figure 4.4. This is not an all-encompassing list, however, and you should include any additional compensatory items in your review. The following will help you understand the process of the review so that you are alerted to the red-flag issues.

In the example shown, Lead Differential is provided in the receiving company; this is a 10% increment for nonexempt employee wages for those people who are acting in a leadership capacity over other employee team members. The sending company did not provide this dif-

Figure 4.4 Sample Comparison: Miscellaneous

	Sending	Receiving	Discussion Points
Miscellaneous			
Type of Compensation	**Description**	**Description**	
Lead differential	None	10%	Some EEs to lead – (+)
Shift differential	10% 2nd shift; 15% 3rd shift	Varies with job title and shift	
Travel pay	.35/mile; see policy	.32/mile	Reduction (–)
Automobile allowance	Senior vice president and above only	None	Reduction for SVP (–)
On-call/stand-by pay	$50/day weekend; $10/day weeknights	$35/day weekend; $10/day weeknights	Reduction (–)
Overtime requirements	Moderate requests for OT hours, based on customer demand	Very little OT required; customer emergencies	=

ferential. This may be a positive if transferring employees are placed into a lead capacity; Shift Differential is provided in both companies, so there is no issue. Travel Pay is paid at a reduced level in the receiving company. This reduction will be viewed as a negative by the employees who do travel on company time, and it has been noted as such. Car Allowance has been provided by the sending company for senior executives, and it is not provided in the receiving company. It could be a negative for a very small group of people, but it can be dealt with on an individual basis during the executive compensation review. On-Call or Stand-By Pay is compensation that was provided by the sending company to employees who were required to respond to emergencies; that is, those who are required to carry a pager during specified off hours. The receiving company provides a similar compensation, but it is at a lesser rate. It is therefore noted for further discussion.

One area of compensation that should not be overlooked is overtime requirements. Obviously, state and federal requirements must be met, and whenever a nonexempt employee works more than 40 hours in a week, he or she will be paid overtime.* The concern that should be considered, however, is the management attitude toward

*Or eight hours in a day in California.

allowing or *requiring* overtime hours. If the sending organization is sometimes understaffed because of business peaks and valleys, it may require significant overtime hours during peak business periods. If employees are transferred to an organization that avoids overtime hours—perhaps one that has the peak work done through temporaries,—then employees could experience a significant pay reduction in annual wages. Some may be happy that they no longer have to work extra hours, but others may be dissatisfied because of the loss of income. The opposite is also true. Employees moving from a no-overtime environment to one where it is frequently requested, or even required, will have strong opinions. Because overtime can greatly impact total compensation for nonexempt individuals, the topic should be included in the review, and significant variances may need to be noted in the Discussion Points.

Review and Summarize Differences

As with the benefits comparison exercise, you should evaluate the overall pluses and minuses for the transferring employees as they move from the sending company to the receiving company. You may want to use Template 4.2 to summarize the data and help you better understand whether employees will be experiencing an overall decrease or increase in total compensation value. Again, the Discussion Points from the initial Compensation Comparison Chart should provide a map of the significant differences.

Figure 4.5 provides an example of a completed summary prepared from the previous samples of the Compensation Comparison Chart. There are both positive and negative elements. Some decisions must be made regarding how the variances will be handled and how communications will be delivered so that all employees are informed of the transition pay changes. Overall, it appears the positives will outweigh the negatives for the general population, with exceptions in specific job groups. These, however, will be impacted by the actions

Figure 4.5 Sample Summary of Compensation Comparison

	Summary of Compensation Comparison	
Compensation Element	**Comments**	**Overall Impact**
Work/pay practices	Move pay week 1 day	= all EEs
	Weekly to biweekly pay	All EEs –
	Some EEs will move from 36 to 40 hours/wee	Limited impact group; could be negative, or add 36-hour policy?
Job analysis	More bonus opportunity in all positions at receiving company	+ 5% to 15%, all EEs
	Base ranges lower in receiving company	Decide if bases will go down because of added bonus? – or +
Exempt	Commission representative moving to bonus	Sales only: unlimited commission to 40% bonus; base salary higher; = or –
	Sales support position exempt at receiving company	Limited group; loss of OT, but gain of bonus =
	Two levels of Design Engineer to one level Product Consultant	Range OK =
Nonexempt	Two level of Tech to one level of Product Specialist	Range OK =
Wage/salary increase Opportunity	Annual to 6 month performance review and merit increase	+ for all Ees
	Anniversary date to set calendar date	=
	Promotion to competency based	+
	New hire review from 120 to 90 days	30 days sooner; + for new hires
Miscellaneous	Receiving company has "lead pay"	+ for limited group
	Travel pay is .02/mile less	– for traveling EEs
	Auto allowance take away for SVP and above	– for SVP; review total compensation packages
	No on-call pay at receiving company	Loss of $150/week for limited group; – (consider adding on-call policy?)

determined in Step 5. The two elements that will be points of positive influence are the improved bonus opportunities and the six-month merit reviews. The negatives include the transition to biweekly paychecks, reduction in travel pay for those who drive their vehicles on company business, and elimination of stand-by pay for those required to be on call during nonworking hours.

Executive Compensation

Executive compensation will be reviewed on a case-by-case basis. Individuals at this level, if retained in the receiving organization, will have offers negotiated based on the particular opportunities available, the critical nature of their position and knowledge, loyalties of the workforce, the compensation paid to peer-level individuals, and the philosophy and practices of the receiving organization. Factors such as base salary, bonus opportunity, stock/ownership, car allowance, relocation, noncompete agreements, and so forth must be considered and may follow not only the existing practices of the receiving organization, but also the purchase agreement between the two companies.

Because the executives selected will play key roles in helping to transition the workforce, their retention is critical to the success of the transaction. Special sign-on or retention bonuses may be offered to include incentives based on defined and measurable transition objectives.

Summary

Having compared the general compensation practices of both organizations, you should have a good understanding of the variances between the two companies. This assessment should have revealed where there may be significant impacts on total compensation for the entire transition employee population, as well as differences that may affect a limited group of employees. Some differences may be positive for the employees; some may be negative. You should be ready to move to the next step where decisions and communications can be developed based on data from this assessment along with the benefits assessment.

CASE STUDY: EXEMPT OR NONEXEMPT, THAT IS THE QUESTION

Background

Through an outsourcing engagement, a computer services company acquired approximately 150 computer technicians located in six cities in the west and midwest. The acquired technicians would be installing systems, troubleshooting, and hooking up printers and peripherals. In computer jargon, these are break-fix tasks relating to system hardware. The technicians would not be involved in professional-level consulting, selling presentations, nor high-level solution development.

The Disconnect

While conducting the compensation comparison, it was discovered that the technicians were classified as exempt employees in the sending company; they were salaried employees who did not receive overtime pay. Technicians in the receiving company were classified as nonexempt and received hourly wages with overtime. The issue of whether the employees should be transferred to the receiving company in their existing classification or be reclassified as nonexempt was debated at great length. Through a series of job analyses and the study of job descriptions and future requirements, it was determined that the employees would move into the receiving company as nonexempt technicians and must do so in order to meet FLSA requirements.

It was a challenging transition. Employees did not respond with gratitude for the overtime pay they would be eligible to receive. That helped, but they were sorely dissatisfied with being moved to a nonprofessional job.

Lesson Learned

There are two lessons to be learned here:

- Don't assume that employee classifications should always be maintained when moving from sending to receiving company. In this case, if the employees had been left in exempt positions, there would have been exposure for the receiving company. They would have ended up with two pay practices for technical support people doing the same job—an inequity that would surely blow up at some point. And they could have faced potential problems with violation of the FLSA.
- Communicate clearly and without question to all affected employees; be straightforward with the rationale for the decision. This was not immediately a popular decision. It was a short-term challenge, but in the long run employees understood and were able to confirm with their new counterparts that the pay practice was fair and comparable with peers. And in the long run, the overtime pay softened the blow.

Step 4: Compare Compensation and Analyze Differences in Value

Task Checklist

_____ Complete Compensation Comparison Chart for sending organization.

_____ Complete Compensation Comparison Chart for receiving organization.

_____ Compare and assess differences under Discussion Points.

_____ Summarize differences.

Template 4.1 Compensation Comparison Chart

	Sending Company			Receiving Company			Discussion Points
Work/Pay Practices							
Workweek							
Frequency of paychecks							
Timesheet Requirements							
Paydays							
Auto deposit							
Other							
Job Analysis							
Exempt Functions	**Job Title**	**Salary Range**	**Bonus**	**Job Title**	**Salary Range**	**Bonus**	
Nonexempt Functions	**Job Title**	**Wage Range**	**Bonus**	**Job Title**	**Wage Range**	**Bonus**	
Wage/Salary Increase Opportunity							
Type of Increases	**Eligibility**	**Frequency**	**When**	**Eligibility**	**Frequency**	**When**	
Merit							
Adjustment							
Promotion							
Cost of Living Adjustment							
New Hire Policy							
Other							
Miscellaneous							
Type of Compensation	**Description**			**Description**			
Lead Differential							
Shift Differential							
Travel Pay							
Car Allowance							
On-Call/Stand-By Pay							
Overtime Requirements							
Other							

Template 4.2 Summary of Compensation Comparison

	Summary of Compensation Comparison	
Compensation Element	**Comments**	**Overall Impact**
Work/pay practices		
Job analysis		
Exempt		
Nonexempt		
Wage/salary increase opportunity		
Miscellaneous		

5

Step 5

Develop Compensation and Benefits Strategy for Workforce Integration

This is where you will make some of your toughest decisions, and it is important to do so with data at your fingertips, not during an emotional all-employee meeting.

Chapter Goal

When you have completed the comparisons described in Chapters 3 and 4, you are ready to document a transition strategy detailing how employees will move from one compensation and benefit structure to another. This strategy will include the methodology and communications plan for benefits program changes, job matching, and total compensation elements. The key focus is to address gaps between the two organizations and to develop a plan that meets strategic needs of the business, as well as the individual needs of employees. A strategy template is included in soft copy to assist in completing this critical step. (Also see www.hr-intergration-tools.com for soft copy templates.)

The Compensation and Benefit Strategy created from this chapter will be critical for a smooth employee transition and preparation for An-

nouncement Day communications, as well as for providing documented rationale about decisions made. This is where you will make some of your toughest decisions, and it is important to do so with data at your fingertips, not during an emotional all-employee meeting. Some of the transition elements will require working through process steps; others will require choosing between two or more potential options, and still others may just require a communication plan. Two case studies illustrate how the preparation of this strategy will facilitate a successful transition and ease some of the tension of an already emotional situation.

What Is the Desired Outcome?

In preparing a strategy for compensation and benefits transition, it is important to facilitate changes that both support the business strategy and promote the well-being of employees. In most cases, those are not opposing goals; in supporting the business strategy, you will assist in making the merger/acquisition successful, yet also provide direction that encourages employees to stay with the organization. There may be a fine balance. Some benefit and compensation decisions could be so expensive that the cost could ultimately harm the business; and yet, you can also be overly budget-conscious and risk alienating employees. If they ultimately demonstrate their dissatisfaction by leaving the organization when they were desperately needed, the harm to the business could be far greater than overspending the budget. The questions you should ask as you work through the process ought to be, "What can we afford to do?" balanced with "What must we do?"

Know What Is Sacred; Know the Limitations

To know what is sacred is to understand what cannot be changed from the perspective of both organizations and the transferring employees.

In other words, there are certain practices or principles that a company is not willing or able to modify, and there are benefit and compensation elements in which the employees will not tolerate change. At the same time, there are limitations in place because of legal compliance or competitive and social pressures. All of these factors will influence your compensation and benefits strategy. Consider the following:

- The owner selling the business may insist that transferring employees not suffer reduction in pay or in hours; not honoring this requirement could be a deal breaker.
- Key individuals may have contractual promises of position, salary, stock, or severance.
- The receiving organization may have long-standing compensation or benefit policies that have been honored and implemented throughout the organization; bringing in a group outside of the guidelines would cause huge inequities.
- Benefit carriers are set in place with contractual obligations at the receiving company; changes cannot be made at the will or wish of either management or employees.
- Competitive practices may dictate minimum levels of salary, bonus, stock, or benefit coverage.
- A labor agreement may be in place that dictates requirements for salary, benefit coverage, and hours of work.
- Federal compliance will affect how certain benefits and compensation policies are handled—for example, health care continuation, pension plan roll overs, and exempt/nonexempt classifications.
- Employees may have an unexpected level of loyalty to a practice or policy. That which is sacred to employees may appear insignificant to the executives who are closing a multimillion dollar transaction. But the removal or reduction of that benefit or practice may cause great angst, and you will have to determine if it's worth it to add an unplanned benefit.

Stop Analyzing; Pull It All Together

It is time to start developing the strategy. You should have collected data from both the benefits and compensation comparison exercises; you will need to refer to both Comparison Charts as we complete the strategy. See Template 5.1; we will work through the completion of this chart by reviewing samples sections. It is impossible to discuss every possible practice and variation that might be encountered between two organizations, but you will understand the process better by reviewing examples from prior experiences.

The Strategy Worksheet is divided into four sections: Core Transition Factors, Benefits: Insurance Transition Factors, Benefits: Noninsurance Transition Factors, and Compensation Transition Factors. Core Factors are basic decisions that must be made in handling the transfer of a group of employees of any size, regardless of benefits, compensation, or variances between the organizations. These policy and process decisions will impact all transferring employees, and may impact both compensation and benefits. The benefit and compensation transition factors will include process steps for transition as well as decisions needed as a result of variances found in the prior two steps. Miscellaneous includes incidental situations that may arise with a very limited number of individuals; nonetheless, a transition process must be considered.

Core Transition Factors

Recognition of Service

An individual who has 15 years of company service and is suddenly "sold" to another company is probably already questioning any previous loyalty to the organization. The employee will first be wondering, "Will I have a job?" and, "If I have a job, will I want it?" Sooner or later,

another question that arises is, "Will my years of service be recognized?" This is a critical employee issue because the answer to this question may impact vacation accrual, 401(k) vesting and matching funds, FMLA eligibility, tuition reimbursement, and other benefits, as well as promotion and salary increase opportunities.

In merger, acquisition, and divestiture transactions, I have typically seen years of service bridged. However, in employee transfers that are a result of outsourcing engagements, I have seen the opposite. It is one of those elements that may be assumed by employees, and therefore bridged service may not be an employee satisfier, but to not bridge service can be a big dissatisfier. In other words, they're mildly happy when you do recognize their service, but enormously unhappy when you don't. Nonetheless, all factors need to be considered when making the decision.

New-Hire Paperwork

A receiving company may or may not require all new-hire paperwork to be completed by transferring employees. In the case of a merger or acquisition where files are transferred intact, it may be deemed not necessary; whereas, in a divestiture situation the sending company may need to keep files while the receiving company needs to establish new files. If record keeping has been questionable or inconsistent, for example, I-9 documents* may be out of compliance, the receiving company may determine it is best to have this documentation processed at the time of the transition. Other documents to consider would be applications for employment, W4's, codes of conduct, employee handbooks, noncompete or confidentiality agreements, and all enrollment forms for benefits. I recommend you seek advice from your legal counsel to make these decisions.

Employment Offer Letters

Providing individual letters of employment to the transitioning employees can help put employees at ease; they know they definitely have

* This is in reference to the Employment Eligibility Verification Form as required by the Immigration and Naturalization Service (INS).

Figure 5.1 Sample: Core Transition Factors

Core Transition Factors	Transition Strategy	Communication Strategy	Notes
Recognition of service	Service will be bridged. Transport original hire date with HRIS data.	Include in Announcement Day presentation and Q&A	
New hire paperwork	Employees will be required to complete all paperwork as if new. Handout packets on Announcement Day Collect in 3 days	Include in A-Day presentation and welcome package.	Notify HR operating center to order supplies.
Employee offer letters	Individual letters of employment will be created with title and rate of pay	Managers to meet with each individual to deliver and discuss letter.	

a job, and questions regarding title and salary are answered. It is reassuring for the employee and is an opportunity for management to speak with people individually to ensure a feeling of being part of the new organization. The piece of paper perhaps is not as important as the process that it represents: managers speaking to every individual.

Depending on the situation, however, it may not be possible to process individual letters with the time requirements of The Deal. If appropriate, a generic letter can be created stating that employees will maintain current salaries, if that is the case. See Figure 5.1 for a sample of core transition factors.

Benefits: Insurance Transition Factors

As employees are moved from one organization to another, there will be many benefit hand-offs from the sending to the receiving organization. One of our goals here is to provide a seamless transition for employees—one that avoids coverage lapses, unanticipated costs, and heightened anxieties. It is important to coordinate between the two organizations exactly how the hand-offs will occur. In the following

pages, we will explore transition strategies as well as potential solutions to the sample variances provided in Chapter 3.

Medical Coverage

In the employee transitions in which I have participated, both the sending and receiving organizations had medical coverage. Although employees moved from one set of carrier options to another, they did have a full array of options from the receiving organization. As was discussed in Chapter 3, if your situation requires that employees move into a company that offers no medical coverage, the turnover will likely be high unless there is a heavily favorable compensation package to offset the cost of buying this benefit individually. In such a case, employees would have COBRA* options and could temporarily continue coverage from the sending carrier, but the cost would be fully borne by the employees unless the receiving organization agrees to pay for this continued coverage.

In situations where employees will begin or continue to have medical coverage of some type, the transition issues will require process timing and communications to be documented. See Figure 5.2 for an example of this planning detail. In this example, coverage with the receiving carriers begins on the first day of employment. This may not always be the case, especially if service is not bridged for the transferring employees; the receiving carriers could be contracted to provide coverage only after 60 days of employment. The transition strategy may then be to continue coverage through the sending carriers by taking advantage of COBRA options, and the receiving organization may pay the COBRA costs in order to preserve employee goodwill during the transition. This would allow the transferring employees to maintain coverage without lapse. Or, the receiving organization may be self-insured and can choose to waive the waiting period for acquisition of employees in a merger. (A written policy addendum may be required through the insurance carriers.) Since this is a highly sensitive

* The Consolidated Omnibus Reconciliation Act, passed in 1986, requires employers to continue coverage up to three years.

Figure 5.2 Sample: Transition—Medical Coverage

Benefits: Insurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Medical Coverage			
Plan Availability (If moving employees from coverage to no coverage, develop transition-out strategy.)	Comparable plan available to employees at both sending and receiving organizations.		
If coverage is provided:			
Start date for receiving coverage	Receiving company begins coverage on A-Day. Employees will sign up for new coverage on A-Day.	Provide enrollment info in welcome package. Include changes in benefit presentation and written Q&A.	Order enrollment supplies from carriers.
Cost variances	Higher cost in effect on A-Day. EE+1 option not available: will have to use Family option.	Include in benefit presentation and written Q&A.	
Coverage variances	Deductibles met YTD will be recognized.	Include in benefit presentation and written Q&A.	Arrange with carriers.
Claims handling	Claims through A-Day –1 to be submitted to sending carrier by A-Day + 60.	Include in benefit presentation and written Q&A.	Discuss with carriers.

subject for the employees involved, all options as well as legal counsel should be considered when determining the strategy for the medical coverage transition.

Major variances in cost and coverage must also be addressed in the strategy. In the example provided, all employees will be facing a premium increase, and this will be communicated in presentation meetings for employees and in welcome packages that will include benefit enrollment and written question and answer (Q&A) information; welcome packages will be discussed in more detail in Chapter 8. But the greater issue is for those employees who previously had an option to sign up for coverage for Employee Plus One but will no longer have that option. For them, the move to Family Coverage will be an expensive change. This represents a situation where the receiving company has a national contract in place with a carrier, and the trans-

ferring employees will need to live by the new rules. It is something that the company may review during contract renewals with the carriers, but for the time being the employees affected will have a significant cost increase. This will need to be communicated carefully in the presentation and benefit enrollment information.

Another item noted in the sample is the recognition of deductibles. Employees who have been in an indemnity plan, or possibly went out of network in a managed health care plan, may have met some portion of their annual deductible. In this case the receiving company is self-insured, and with appropriate agreement by the carriers, the deductibles already met will be recognized in the receiving organization so that employees don't have to suffer paying double deductibles because of the organizational change.

Dental and Vision

Dental and vision coverages can be addressed similarly. Identify and document the transition processes and communications required. Examples are provided in Figure 5.3. If employees are moving from full coverage to no coverage options in both dental and vision, the loss will certainly be unpopular. But, as mentioned previously, these areas are not as likely to be the hot buttons for employees as is medical coverage. The transition strategy would require full disclosure on the loss of the benefits and how employees can submit prior claims and continue coverage at their own cost through COBRA or some other means.

On the other hand, if the receiving company is providing dental or vision coverage to employees who previously had none, this is a positive story to communicate. Make sure the advantages of both insurances are presented in employee benefit meetings as well as in the written Q&A, with enrollment information included in the welcome packages.

Life Insurance

As with dental and vision coverages, the life insurance coverage is not as critical to most employees as is medical coverage. The addition or loss of coverage must be explained, but few additional steps

Figure 5.3 Sample: Transition—Dental and Vision

Benefits: Insurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Dental and Vision			
Plan Availability (If moving employees from coverage to no coverage, develop transition-out strategy.)	Plans available to employees at both sending and receiving organizations.		
If coverage is provided:			
Start date for receiving coverage	Receiving company begins coverage at 8:00 A.M. EST on A-Day. Employees will sign up for new coverage on A-Day.	Provide enrollment info in welcome package. Include changes in benefit presentation and written Q&A.	Order enrollment supplies from carriers.
Cost variances	Higher cost in effect on A-Day. EE+1 option not available; will have to use Family option.	Include in benefit presentation and written Q&A.	
Coverage variances	Deductibles met YTD will be recognized.	Include in benefit presentation and written Q&A.	Arrange with carriers.
Claims handling	Claims through A-Day –1 to be submitted to sending carrier by A-Day + 60.	Include in benefit presentation and written Q&A.	Discuss with carriers.

are required. In the example shown in Figure 5.4, employees will continue to have life insurance provided for them by the company, and they can purchase additional coverage for themselves. However, they will lose the option to purchase AD&D and life insurance on dependents. This will be covered in employee benefit meetings and in the written Q&A.

Figure 5.4 Sample: Transition—Life Insurance

Benefits: Insurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Life Insurance			
Coverage variances	Loss of AD&D and Dependent Life effective on A-Day.	Include in benefit presentation and written Q&A.	
Cost variances	Not applicable		

Disability Insurance

Many subtle differences in STD and LTD coverage may exist between companies, and those differences will need to be explained to employees. Complications and questions may also arise. We will approach this from two perspectives: (a) from the employees who are covered by the insurance but are currently actively employed with no disabilities and none anticipated in the near future; and (b) from the employees who are on disability or are anticipating disability—for example, scheduled surgery or maternity leave. Individual situations will be easier to handle and will be accomplished more consistently if an escalation process is developed in advance.

Active employees will be concerned with significant changes in basic coverage or cost of coverage. The example in Figure 5.5 illustrates some common variances that need to be communicated to employees. In this situation, because employees are being acquired into a company and service is bridged, the normal eligibility wait of 90 days will not occur. The carrier must be notified of the situation to make sure the wait period is waived, except for those employees who have not been with the sending company for the required 90 days. In other words, original service date with the receiving company is recognized.

The other sample variances are communication issues to ensure that employees understand the differences in elimination period, duration of payments, and benefit formula. The good news in this example is that this benefit is paid entirely by the employer.

For employees who are out on disability on the effective date of the acquisition, the carrier from the sending organization will continue to process income claims until the employee can return to work or is no longer eligible. Depending on if and when an employee is able to return to work, he or she may come back to a position at the receiving company. Whether the disabled employee is covered by the Family and Medical Leave Act (FMLA) should be determined to ensure legal compliance. The employees on disability leave should be notified of the merger/acquisition and whom to contact upon return.

I would recommend handling employees scheduled to go out on

Figure 5.5 Sample: Transition—Disability Insurance

Benefits: Insurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Disability Insurance			
If coverage is not provided at receiving organization, develop plan for transition from sending carriers.			
If coverage is provided:			
Start date for receiving coverage	Waive 90-day eligibility wait for employees because of bridged service. Employees with less than 90 days must meet wait period.	Provide enrollment info in welcome package. Include changes in benefit presentation and written Q&A.	Order supplies and arrange with carrier.
Cost variances	Receiving company pays 100% of premium. No cost to employee.	Include in benefit presentation and written Q&A.	
Coverage variances	Elimination period: from 5 to 14 days, duration of benefits 13 to 26 weeks (coordinates with LTD), benefit formula from 100% to 75%.	Include in benefit presentation and written Q&A.	
Disabilities in process	Continue processing through sending carrier until employee is able to return from leave. Depending on length of leave and if FMLA is in effect, position may be available at receiving organization.	Send letters (Sending HR) to employees on disability to notify of acquisition and whom to contact with receiving organization upon return.	
Disabilities scheduled	Coordinate cut-off between sending and receiving carriers.		Consult with carriers/ legal

leave immediately after the acquisition effective date on a case-by-case basis. It may seem obvious that all claims after the acquisition would go automatically to the receiving carrier. However, consider whether the new coverage is comparable to what the employee has been purchasing. Each situation should be examined carefully, and I would recommend legal consultation as well as review by the insurance carriers.

Benefits: Noninsurance Transition Factors

Pension Plans

Pension plans have become an important benefit to employees; I have seen numerous surveys indicating that this is in the top three most important benefits to employees (along with medical insurance coverage and paid time off). Therefore, it is one of the transition items that can evoke great emotion if not handled correctly in the eyes of the employees.

Given the legal, financial, and governmental ramifications associated with pension plans, I defer to attorneys specializing in pension plans in making decisions about the handling of transferring employee funds. However, from an employee relations perspective, I can alert you to questions that may arise to help you with the integration process.

Employees currently participating in a pension fund will want to know, "What will happen with my funds?" and "What will happen with the company match funds?" People with loans will ask, "How will my loan be handled? Is it immediately payable or can I continue with ongoing deductions?" And, looking toward future savings, they will want to know, "How do I continue to participate in a pension or savings plan? How soon can I start?"

All of these questions must be answered through the coordinated efforts of both the sending and receiving company, fund managers, and attorneys. As with insurance benefits, the transfer process must be developed, as well as communication plans to the employees. This information should be included in benefit presentation meetings and in Q&A information sheets.

See Figure 5.6 for an example of the handling strategy and communications outlined for a plan transfer. This strategy has a lot of good news for employees. In this case, both companies have a 401(k) plan. A plan-to-plan direct transfer has been arranged, so employees will experience little disruption. They will be eligible to reenroll in the

Figure 5.6 Sample: Transition—Pension Plan

Benefits: Noninsurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Pension Plan			
Plan comparison	Both companies have 401(k) program with company match.	Provide enrollment info in welcome package. Include changes in benefit presentation and written Q&A.	Order enrollment supplies from fund manager.
Eligibility	Employees can enroll immediately at receiving company unless < 6 months service. Were eligible after 1 month at sending company. Those with < 6 months must suspend deductions until requirement met.	Include in benefit presentation and written Q&A.	
Matched contributions	Communicate higher match at receiving company.	Include in benefit presentation and written Q&A.	
Unmatched contributions	Communicate lower contribution level maximum at receiving organization: 15% reduced to 10%.	Include in benefit presentation and written Q&A.	
Vesting	Communicate faster vesting at receiving company: 5 years reduced to 3 years.	Include in benefit presentation and written Q&A.	
Existing funds	Plan-to-plan direct transfer.	Include in benefit presentation and written Q&A.	Coordinate details and dates with fund managers.
Company match funds	Included in plan-to-plan transfer. Unvested balances will not accelerate as a result of plan transfer, but the more advantageous vesting schedule will be applicable after the transfer is complete.	Include in benefit presentation and written Q&A.	Coordinate details and dates with fund managers.
Existing loans	Loans will be transferred; no acceleration required. Deductions to begin immediately on paycheck.	Include in benefit presentation and written Q&A.	Coordinate details and dates with fund managers.

receiving organization's 401(k) plan, and deductions can begin immediately with the exception of those employees who have not met the six-month service requirement. Because the sending organization allowed participation after only one month of service, there may be individuals who have an account but will need to suspend deductions until the service requirement is met. Because of the plan-to-plan direct transfer, those individuals with loans will be able to continue ongoing payroll deductions. Employees cannot save as much as they did in the prior plan, as the maximum is 10% instead of 15%. However, the company match is slightly better, and the vesting is faster with 100% vesting in three years instead of five. All of this will be included in the benefit presentation, enrollment packages, and Q&A sheets.

Stock/Stock Options

Stock and options may not be part of the benefits package, but if they are, the differences in offerings between the sending and receiving organizations will need to be communicated to employees. In the sample situation illustrated in Figure 5.7, the employees are moving from an option plan to a stock purchase plan. The vested options can be exercised, but unvested options are cancelled. The stock purchase plan will allow them to purchase stock in the receiving company at the rate of 85% of fair market value. As with prior benefit information, this

Figure 5.7 Sample: Transition—Stock/Stock Options

Benefits: Noninsurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Stock/Stock Options			
Plan comparison	From option plan to stock purchase.	Include in Benefit presentation and written Q&A.	
Handling of vested and unvested stock	Not applicable.		
Handling of vested and unvested options	Vested options can be exercised within 30 days. Unvested options are cancelled.	Include in benefit presentation and written Q&A.	

will be communicated in the benefit presentation, enrollment packages, and Q&A sheets.

Paid Time Off

As was mentioned earlier, paid time off usually ranks in the top three most important benefits to employees, along with medical coverage and pension plans. Employees will be concerned with what will happen with their existing accrued time off, and they will want to know how much paid time off they will have in the future. They will ask questions such as the following:

- What will happen with the vacation time I've earned?
- How many paid holidays will I have?
- How much vacation time will I earn in the future, and how soon can I take it?
- Will I have any paid time off for illness or personal reasons?

The answers to the last three questions are determined by the receiving organization's policies. However, whether accrued vacation is paid out to individuals by the sending company or is carried over to the receiving organization may be determined in the asset purchase agreement. If vacation accruals are transferred to the receiving organization, employees will experience less disruption and are more likely to be able to take vacations they had scheduled.

See Figure 5.8 for examples of the handling of this benefit. In the illustration, accrued vacation balances will be transferred to the receiving company, and personal hours for nonexempt will be transferred; however, personal hours for exempt will not be transferred. The receiving company does not track personal time off for its exempt employees and prefers to have those arrangements made between the employee and his or her manager on an as needed basis. The transfer of accrued hours must be coordinated with the payroll departments so that the required information is transferred from the sending to the receiving organization. Details will be communicated to employees in

Figure 5.8 Sample: Transition—Paid Time Off

Benefits: Noninsurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Paid Time Off			
Handling of accrued hours	Accrued vacation balances will be transferred to receiving company. Personal hours for nonexempt will be transferred; exempt will not be transferred.	Include in benefit presentation and written Q&A.	Coordinate with payroll to include in data transfer.
Vacation variances	Moving from rolling maximum to Use or Lose by 12/31 each year.	Include in benefit presentation and written Q&A.	
Holiday variances	Moving from 9 to 6 holidays.	Include in benefit presentation and written Q&A.	
Personal/sick time variances	Moving from 54 hours to 72 hours for nonexempt. Exempt not measured in Payroll; arranged individually with manager.	Include in benefit presentation and written Q&A.	
Other	Jury and bereavement policies comparable.		

benefits presentation meetings and in the written Q&A documents distributed to all employees. Other policy differences will also be included in the communication pieces; the overall policies are comparable, so I would anticipate the employee reception to be unemotional.

Miscellaneous Benefits

The miscellaneous benefits addressed in the Benefit Comparison Chart should be included in the Strategy Worksheet. In the situation illustrated in Figure 5.9, the sending organization provides tuition reimbursement whereas the receiving organization does not. That loss of benefit needs to be communicated, but the handling of classes in process must also be addressed. Employees who previously received management approval, enrolled in classes, and are taking a class at the

Figure 5.9 Sample: Transition—Miscellaneous Benefits

Benefits: Noninsurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Miscellaneous Benefits			
Tuition reimbursement	Employees in process of approved classes at time of acquisition will be reimbursed with appropriate documentation submitted. No further classes will be reimbursed.	Include in benefit presentation and written Q&A. Send letter of notification to employees affected.	
Employee assistance program	Comparable. Communicate new toll-free number.	Include in benefit presentation and written Q&A.	
Employee purchase program	Comparable. Communicate new process.	Include in benefit presentation and written Q&A.	
Flexible spending accounts	Comparable. Both health and dependent care accounts provided. Balances in sending organization accounts will be rolled over to receiving organization account manager. Current deductions will continue.	Include in benefit presentation and written Q&A. Send letter of notification to employees affected.	Coordinate with FSA managers. Coordinate with payroll to include deduction data in data transfer.

time of the acquisition will want to know if they will get reimbursement as was agreed at the beginning of the class. The strategy provided allows employees to finish the classes in which they are currently enrolled and to receive reimbursement according to the sending organization's process. Further classes would not be approved.

The other miscellaneous item to note is in the handling of Flexible Spending Accounts (FSAs). The benefit provided is comparable: Both health and dependent care accounts are provided at both the sending and receiving organization. The strategy shown provides that the balances in the employees' accounts will be rolled over to the receiving organization's FSA manager and that current deductions can be continued. This allows for little disruption to the individual employees, although it will require coordination between the sending and receiving payroll departments and FSA managers.

Compensation Transition Factors

Let's now move to the compensation transition strategy. We will work through the processes and variances much like we did with benefits, focusing on questions that will arise and some of the behind-the-scenes actions that can take place to reduce employee anxiety.

Work/Pay Practices

As was discussed in Chapter 4, employees can become highly emotional when anyone does anything that might negatively impact their paychecks. From an overview perspective, you should have looked for, and may have found, changes in practices between the sending and receiving organizations dealing with hours worked, frequency of pay, reporting of work hours, and any number of other practice and policy issues. Again, it is impossible to predict everything that you may encounter, but by working through the samples provided, you will learn how to look for and deal with some of the sensitive issues that can apply to the transition process you are managing.

In Figure 5.10, notice the transition strategy details that should not be left to chance. Coordinated efforts and strong lines of communication will be required between the two organizations to ensure there are no gaps and no overlaps. The exact timing of when hours should be paid by the sending versus the receiving organization may not be such a significant point in all instances. However, the timing may be defined in the asset purchase agreement whenever, for example, there is a divestiture of a division and the sending company remains a separate entity.

As mentioned in Chapter 4, this sample situation illustrates a change that will be received negatively by the employees—moving from weekly to biweekly paychecks. This is one of those situations in which clear communication will be required. There's no way to turn this change into a positive, but you'll simply need to explain carefully how and when employee paychecks will now be handled.

Also note the transition strategy for Other Deductions in this

Figure 5.10 Sample: Work/Pay Practices

Compensation Transition Factors	Transition Strategy	Communication Strategy	Notes
Work/Pay Practices			
Workweek	All employees move from Sunday start-of-week to Saturday start-of-week, effective A-Day.	Include in compensation presentation and written Q&A.	
Frequency of paychecks	From weekly to biweekly, effective A-Day plus 7.	Include in compensation presentation and written Q&A.	
Pay days	Payday will continue to be Friday with one-week lag. Upon announcement, sending company will pay the Friday of announcement and the following Friday (for lag) for all hours worked through 8:00 A.M. of A-Day. Receiving company will pay A-Day hours and forward on following biweekly pay schedule.	Include in compensation presentation and written Q&A.	Coordinate with payroll departments
Timesheet requirements	Nonexempt employees from weekly to biweekly. Exempt moving to no timesheet required.	Include in compensation presentation and written Q&A. Include schedule of when timesheets are due to Payroll.	
Autodeposit	Autodeposit data to be transferred with payroll data. Also, form in new-hire packets.	Include in compensation presentation and written Q&A.	Coordinate with payroll to include in data transfer.
Other payroll deductions	Credit Union available at receiving company not the same as one with sending company. High number of participants with loans. Receiving company will add second credit union. Mortgage service and employee purchase deductions not available at receiving company.	Send notification to affected employees; mortgage payroll deductions to end; direct payments required as of A-Day. Employee purchase balances due in full as of A-Day.	Coordinate with payroll and credit union. Notify mortgage service on A-Day.

example. The receiving company is adding the credit union that was used by the sending company because of the large number of employees using their services, including loan services. You cannot always succumb to the employees' preferences; when it is possible to do so without incurring any significant expenses, however, it is worth the effort. The key is to look at the number of employees impacted, the importance or critical necessity, and the cost.

By reviewing your own Compensation Comparison Chart (created in Chapter 4) under the Work/Pay Practices section and Figure 5.10, you should begin to develop your compensation strategy.

Job Analysis

In this section of the Strategy Worksheet, our goal is to determine how best to transition employees from the sending organization's job/pay structure into the receiving organization's job/pay structure. However, the opposite is possible; if the sending organization has an exceptional compensation structure that better supports the business strategy and goals of the new merged organizations, the receiving company may adopt that structure.

In any event, it is time to develop a strategy that combines the two workforces together in a fair and equitable manner. We will need to consider job grades, classifications, and titles, as well as wage and salary ranges and leverage. See Figure 5.11, in which the strategy has been developed based on the data gathered in our example from Chapter 4. Note that each job from the sending organization has been mapped to a job in the receiving organization. There are instances where two jobs will move into one, such as Customer Service Manager and Administrative Manager to Client Care Manager, and in one case a new job is being created in the receiving organization, the nonexempt Sales Support Specialist. You may ask, "Why not just move the nonexempt Sales Support Specialists into the exempt Client Support Representative position?" That may be possible for some of the more experienced Support Specialists, but the concern in this example was that they would not all be able to meet the higher-level requirements of the job that make it exempt. It is safer, from an FLSA standpoint,

Figure 5.11 Sample: Job Analysis

Compensation Transition Factors	Transition Strategy	Communication Strategy	Notes
Job Analysis			
Exempt	Move all positions into categories as follows at current base with new bonus opportunity.	Communicate in one-on-one conversations when offer letter is delivered. Provide managers job title and wage range information.	
	General Manager to District Manager		
	Customer Service Manager and Administrative Manager to Client Care Manager		
	Senior Design Engineer and Design Engineer to Product Consultant		
	Administrative Supervisor and Warehouse Supervisor to First Line Supervisor		
	Move Account Representative to Sales Representative with increase in base pay due to loss of unlimited commission changing to 40% bonus. Base increase to be 25% to 50% on case-by-case basis. Consider salary in current range and last year's commission earnings.	District Managers to have sales meetings to explain new bonus opportunity plan and sales territories.	Obtain last year's commission earnings data on transferring Account Representatives. Work with District Managers to set salaries.
Nonexempt	Move all positions into categories as follows at current base with new bonus opportunity.	Communicated in one-on-one conversations when offer letter is delivered.	
	Senior Technician and Technician to Product Specialist		
	Secretary and Receptionist to Administrative Coordinator		
	Senior Shipping/Receiving Clerk and Shipping/Receiving Clerk to Center Coordinator		
	Create new Sales Support Specialist nonexempt job in receiving organization, range $7.00 to $18.00.		

to leave all individuals at their current level for the time being. As they prove their ability to react to customer requirements without intervention from a supervisor, they may be promoted into the higher level position. I would caution you to err on the side of conservatism—that is, nonexempt, when it comes to moving large groups of employees from non-exempt to exempt positions.

One other point to note in our sample in Figure 5.11 is that all groups of employees are retaining their existing base salaries except for the Account Representatives, who are receiving a sizable increase in base pay. This is because they are moving from an unlimited commission to a limited bonus opportunity. The recommendation is to examine, by individual, prior year's commission earnings to help determine new base salary. Whenever you see employees moving from a highly leveraged position (i.e., where a high percentage of total income is at risk) you will need to consider increasing the base salary. And the reverse is also true: If a person moves into a highly leveraged position where he or she can suddenly earn substantially more on the at-risk side of the equation, base salary may need to be adjusted downward.

Wage and Salary Increase Opportunity

Future opportunity for wage and salary increases is not an urgent issue at the time of an organizational transaction. However, it is important in the eyes of the employees—especially for them to understand their full benefits and compensation package and how it will change as they move from one company to another. As you will see in our example, the communication of this element can actually be a positive part of the message about the new employer.

Please review Figure 5.12. All employees are being moved to a six-month merit review process from their prior annual review. You will also recall, however, that all transferring employees will be experiencing an increase in bonus opportunity of 5% to 10%. Because of that across-the-board incremental income opportunity, and because wage ranges (and presumably wages) are slightly higher in the sending organization, the strategy is not to provide increases in the upcoming six-month review. This method is preferable to reducing base salaries and then giving increases in the next review.

Figure 5.12 Sample: Wage/Salary Increase Opportunity

Compensation Transition Factors	Transition Strategy	Communication Strategy	Notes
Wage/Salary Increase Opportunity			
Merit	All transferred employees will be set on 6-month review schedule. However, first review after acquisition will not provide merit increases due to additional bonus opportunities gained by all transferred employees. Exceptions reviewed on case-by-case basis.	Managers to communicate in one-on-one meetings. Include in compensation presentation and written Q&A.	
Promotion	All transferred employees to be educated on competency-based promotion system. Include in retention strategy.	Managers to communicate in one-on-one meetings. Include in compensation presentation and written Q&A.	Provide competencies and promotion guidelines to transferred managers.
New hires	Set 90-day review schedule for new hires transferred.	Managers to communicate to applicable individuals in one-on-one meetings.	

Besides moving to six-month reviews, the employees will also move to competency-based promotion opportunities. The communication of both the merit and promotion policies will be good news to the employees and should be received positively. Although they may still be experiencing shock and fear, they may start to think, "Maybe this merger thing isn't so bad after all. This company really seems to have its act together." All right, enough reverie—now back to reality.

Miscellaneous Compensation

The term miscellaneous does not mean unimportant. It refers to a number of critical compensation factors that still need to be addressed. These factors will vary from one organizational transaction to another, but you should now consider the factors that we haven't addressed: those factors that may be unique to either the sending or receiving organization or that may be unique to an industry. See Figure 5.13, where

Figure 5.13 Sample: Miscellaneous Compensation

Compensation Transition Factors	Transition Strategy	Communication Strategy	Notes
Miscellaneous Compensation			
Lead differential	Lead differential will not be automatically applied to any individual transferred. As nonexempt team leads are identified and qualified, they will be approved for lead differential of 10%.	Provide qualification guidelines to transferred managers.	
Shift differential	Nonexempt employees working from 4 P.M. to midnight will transfer with 10% differential; those working from midnight to 8 A.M. will transfer with 15% differential. All exempts to be reviewed on individual basis.	Include in compensation presentation and written Q&A.	Sending payroll department to provide list to receiving payroll department to coordinate hand-off.
Travel pay	All travel expenses incurred by transferring employees up to 8 A.M. on A-Day to be submitted on sending company form at .35/mile. All travel expenses incurred after 8 A.M. on A-Day to be submitted on receiving company form at .33/mile.	Include in compensation presentation and written Q&A. Include where to find travel guidelines posted on website.	Obtain transition plan from finance department on handling of company credit card and phone card for those en route on A-Day. Include in communications.
Automobile allowance	Allowance stops on A-Day; review each individual on allowance to determine if loss amount can be incorporated into base pay without causing inequities.	Communicate one-on-one by senior management.	
On-call/stand-by pay	Nonexempt only. All on-call hours up to 8 A.M. on A-Day to be submitted on timesheets to sending company. All on-call hours after 8 A.M. on A-Day to be submitted on timesheets to receiving company.	Include in compensation presentation and written Q&A.	

I have addressed the miscellaneous elements of concern that were identified in Chapter 4.

There are some negatives to communicate in this sample situation. The reduction in travel pay is slight but will cause some grumbling, as will the reduction of weekend on-call pay. The loss of car allowance for the senior executives will be dealt with on a case-by-case basis. Their total compensation packages may be changed considerably, and each negotiation will take place on an individual basis.

Individual Compensation Analysis

The exercise that you completed focused on general compensation policies and practices of the sending and receiving organizations. It should have alerted you to the many variations that may exist between the two companies. When individual job and salary information about each employee is available, you will be able to slot people into their new positions. Throughout this process you may find further concerns where employees may be paid above or below the salary ranges or where individual skills and experiences require special handling. Those exceptions must be handled on a case-by-case basis. The majority of employees involved in the mass transfer, however, should fall within the guidelines developed in the Strategy Worksheet.

Review with Appropriate Parties

The Compensation and Benefits Strategy Worksheet will have far-reaching consequences. The decisions made will have affect on both employee retention and finances. While developing the strategies, you are weighing costs and benefits with each decision. These critical strategies must be reviewed with the other decision-makers. You should work closely with HR executives from both organizations, as well as legal and financial counterparts, to ensure that there is agreement with the strategic choices made.

Summary

Completing the Compensation and Benefits Strategy Worksheet is a particularly crucial step in workforce integration. It impacts literally every employee who is transferring as a result of the organizational transaction. The decisions made will provide a more consistent and equitable process based on carefully evaluated data. If this methodical strategy is not developed and documented in advance, assumptions will be made on the fly, different answers will be given by different people to different employees, and ultimately a chaotic situation full of numerous inconsistencies will arise. The worksheet is a difficult and time-consuming step, but it is absolutely essential. Proactively investing your time now will save countless emergencies and knee-jerk reactions on Announcement Day and in the weeks following.

PAY AND BENEFITS: THE BALANCING ACT

Background

A group of 250 employees was to be acquired as the result of a national outsourcing contract. The sending organization was a mature manufacturing company with excellent benefits but low pay ranges for the specialized talents of the group being outsourced. The receiving organization was a relatively young, high-tech company with a full array of benefits and competitive wage ranges.

The Disconnects

In reviewing the overall compensation and benefits packages offered by each company, the following major variances were found:

- The sending organization provided a retirement pension with employer contributions equaling 8.5% of annual salary along with a 401(k) with matching contributions on 4%. The receiving organization provided no retirement pension but did provide a 401(k) with matching contributions on 3%.
- The sending organization provided no dental insurance, whereas the receiving organization did.
- The sending organization provided paid time off based on length of service. Employees tenure ranged from two months to 25 years. Therefore their paid time off fell in three categories:

Tenure	Number of Days Paid
< 4 years	21 days
5–19 years	29 days
20+ years	33 days

- The receiving organization had managed numerous outsourcing engagements and had followed a consistent practice not to bridge service. Therefore, employees would enter the receiving organization as new hires without service but would be able to take 28 paid days off in their first year of employment.
- The wages of the sending organization were, on average, approximately 10% lower than those for individuals with comparable skills at the receiving organization.
- The sending organization paid no bonus, whereas the receiving organization provided a bonus opportunity of 4% of wages.

The Integration Strategy

Given the talent shortage prevalent in the high-tech arena, the receiving organization's management team feared losing many of the employees during the transition. This fear became even more acute when the benefit comparison was completed. The loss of the 8.5% retirement contributions would cause major anguish, and the lack of bridged service would be the icing on the cake—many employees had more than five years of service, so they would be receiving fewer paid days off. The bonus opportunity and the dental benefits were positives, but not enough to offset the negatives.

The saving factor was compensation. Because the transferring employees were paid less than those individuals with comparable skills at the receiving organization, the company could give increases in pay to offset the loss of benefits. A pay raise was calculated by estimating the value of each variance in terms of annualized salary. Depending on length of service with the sending company, employees received an increase between 3.5% and 8.5%.

Results

The employees were, as anticipated, disgruntled when they heard of the loss of tenure and retirement contributions. However, when they learned of the addition of dental benefits, bonus opportunities, and an increase in pay, they were satisfied that their total compensation and benefits package was comparable. A number of other factors play into the retention of employees, but this particular group showed a high retention rate long after the transition took place.

WORKWEEK DILEMMA: 36 VERSUS 40 HOURS

Background

An acquisition of over 300 employees was to take place with employees located in eight cities throughout the eastern United States. During a compensation comparison review, it was discovered that approximately 45 of the employees, located in the sending company's headquarters office, were working 36-hour workweeks. These employees had previously worked 40-hour workweeks, and when they were converted to 36 hours one year earlier, their weekly pay was retained at the same level—that is, 36 hours of work for 40 hours of pay. In effect, their base wages had increased.

Equity Issues

After the acquisition, the 45 employees would be working alongside employees of the acquiring company in the same buildings, doing the

same job functions. The existing employees in the acquiring company were required to work 40 hours for 40 hours of pay. To bring the transferring employees over with 36-hour workweeks would be an inequity to the existing employees.

The Integration Strategy

It was determined that the transferring employees would have to go back to 40-hour workweeks. To handle the situation otherwise would cause an outcry from the 200 or more existing employees in the receiving company. Wages were reviewed to determine if a possible increase in pay was warranted. If the transferring employees were compensated at a level lower than that of the existing employees, it could possibly be justified to increase the base salaries of the 45 people to make up the difference of working an additional four hours per week. However, the group of 45 was already making excellent wages, on the high end of the receiving company's scale. It would not be a popular decision, but equity had to prevail. It would be worse to alienate 200 existing employees than to upset the 45 transferring individuals.

The Results

In one-on-one meetings the management team explained to each of the transferring individuals that the workweek would be 40 hours. The people were told about the equity issues that existed and that the decision was firm. Management felt that this type of negative news was best handled on an individual basis, rather than in a large meeting where one person's anger can feed many others. The employees understood the rationale, but were nonetheless disgruntled, as expected. It did not appear to cause turnover, however, because the workforce remained intact in the following months. The managers did play a strong role in this success, as they were able to focus the employees immediately on service goals, call completion objectives, incremental training, and career development.

Step 5: Develop Compensation and Benefits Strategy for Workforce Integration

Task Checklist

_____ Complete Compensation and Benefits Strategy Worksheet.

_____ Review with appropriate parties.

_____ Revise as necessary.

Template 5.1 Compensation and Benefits Strategy Worksheet

Core Transition Factors	Transition Strategy	Communication Strategy	Notes
Recognition of service			
New hire paperwork			
Employment offers			

Benefits: Insurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Medical Coverage			
Plan availability (If moving employees from coverage to no coverage, develop transition-out strategy.)			
If coverage is provided: Start date for receiving coverage			
Cost variances			
Coverage variances			
Claims handling			
Dental and Vision			
Plan availability (If moving employees from coverage to no coverage, develop transition-out strategy.)			
If coverage is provided: Start date for receiving coverage			
Cost variances			
Coverage variances			
Claims handling			
Life Insurance			
Coverage variances			
Cost variances			
Disability Insurance			
If coverage is not provided at receiving organization, develop plan for transition from sending carriers.			
If coverage is provided: Start date for receiving coverage			
Cost variances			
Coverage variances			
Disabilities in process			
Disabilities scheduled			

Template 5.1 (continued)

Benefits: Noninsurance Transition Factors	Transition Strategy	Communication Strategy	Notes
Pension Plan			
Plan comparison			
Eligibility			
Matched contributions			
Unmatched contributions			
Vesting			
Existing funds			
Company match funds			
Existing loans			
Stock/Stock Options			
Plan comparison			
Handling of vested and unvested stock			
Handling of vested and unvested options			
Paid Time Off			
Handling of accrued Hours			
Vacation variances			
Holiday variances			
Personal/sick time variances			
Miscellaneous			

Compensation Transition Factors	Transition Strategy	Communication Strategy	Notes
Work/Pay Practices			
Workweek			
Frequency of paychecks			
Pay days			
Timesheet requirements			
Auto deposit			
Other payroll Deductions			
Job Analysis			
Exempt			
Nonexempt			
Wage/Salary Increase Opportunity			
Merit			
Promotion			
New hires			
Miscelleneous			

6

Step 6
Determine Leadership Assignments

This critical step will influence the future success and stability of the business. Selecting the wrong leaders can result in massive employee turnover and can destroy the positive momentum of the transaction.

Chapter Goal

In this chapter we will discuss the steps to assessing and selecting leadership for the new, combined organization. The process begins with a review of the organizational structure needed to support the new company's vision and business strategy, and then moves to an evaluation of the leadership qualities needed to fill each position. From there we will examine ways to assess the competencies of available candidates from both organizations. This section provides guidance to assist in identifying strengths and weaknesses and in selecting final candidates for leadership positions. This critical step will influence the future success and stability of the business. Selecting the wrong leaders can result in massive employee turnover and can destroy the positive momentum of the transaction.

The Critical Step

As I developed each chapter, I thought, "This must be the MOST critical step of all." And as soon as I finished and went on to the next, I thought, "No, now THIS is the most critical step of all." Surely, there can be nothing more important to a successful merger or acquisition than selecting the leadership that brings the workforce through the transaction—the individuals who recognize the upheaval and disruption to the workforce but are able to keep themselves and their workers focused on the business at hand. I have seen transactions fail, and I have seen them succeed. Admittedly, many factors can lead to failure, and many factors contribute to success. The one common denominator among successful transactions, however, is strong leadership.

Transactions do occur where a formal leadership selection process may not be necessary—for example, in those mergers that keep the acquired company fully intact. When it is a stand-alone division and leadership is kept in place without an integration of workforces, it is possible that no selection process would be required for the transaction. Similarly, when the sending company is small and the owner is relinquishing all management of the business, it is possible that the leadership selection process won't be required. The employees may be folded in under existing management of the acquiring company.

In the majority of situations that I have seen, however, it has not only been necessary to select organizational leadership, but it has also been a crucial step in determining the success of the entire transaction, as well as the future success of the new combined organization.

Levels of Leadership

At the highest level, whether the president or chief executive officer (CEO) of the acquired organization is retained in the combined

organization may be determined in initial negotiations of The Deal. At this level, I would not call what transpires a selection process. Instead, it is simply part of the trading and politics that occur with a transaction. The president, CEO, and even some of the direct reports may be part of the trade negotiations rather than elements of any true selection process. This chapter does not attempt to address this negotiation process, but rather focuses on the remaining levels of leadership where selection is based on competencies and support of business strategy. This is not to say that the most senior executives cannot be selected through a formal assessment process, but that negotiations and politics can and do play a more prevalent role at this level.

Certainly, what happens with the pivotal leader of the acquired organization can be a critical element in how employees react to the transaction. For example, in one particular situation with which I was involved, a large organization acquired a smaller company, and the acquired CEO was retained in a senior executive level position. The very fact that he was retained helped the entire transaction go more smoothly. In the eyes of the employees who followed him, the acquisition didn't challenge their loyalty to the individual because he was part of the transaction. In other words, employees felt positive about following their leader to the combined organization, rather than feeling sold to the competition by an owner who then walked away from the business.

At lower levels of leadership, I believe a methodical process of selection can be followed. Individuals must be selected who can facilitate the transfer of intellectual capital, who can identify and secure the commitment of key players, and who can help bring the organization through the turbulence and upheaval of the transaction.

When Should the Selection Process Happen?

As early as possible. Although this is listed as Step 6, the timing really depends on the level of leadership, the disclosure limitations, and the availability of information. In my experience, general policy and prac-

tice information has been available long before the data on individuals. If your situation is not the same, you may want to move the leadership selection process earlier. In reality, as previously discussed, some of the workforce integration steps may be taking place simultaneously: Leaders may be selected while the compensation and benefits strategy is being developed, and at the same time communication strategies are being created.

Leadership Selection Process

Some might argue that selecting leadership is more an art or a talent than a process or a method. Perhaps the truth is that it's both. But I believe you have a much greater opportunity for success if you do follow a consistent process. This is the process I recommend:

- Review vision and business strategy.
- Review the combined organizational structure.
- Review the core competencies that support the business strategy.
- Determine leadership needs by position.
- Assess individual candidates.
- Select leadership for the combined organization.

In the following pages I'll explain each step and provide examples and tools that may help you in your selection process.

Review Vision and Business Strategy

Every process put in place—whether it be human resources, finance, or marketing—should support the vision and business strategy. If it does not, the process should be eliminated or seriously altered. Certainly in leadership selection, there can be no greater aim than to support the new combined business strategy. If you are playing a part in

redefining the vision and strategy as a result of the M&A transaction, then all the better, because you will have a deeper understanding of the organization's direction. If an existing vision and strategy are in place, then review them to make sure that the leaders selected fully support the future strategic needs.

Review the Combined Organizational Structure

Depending on the size and type of transaction, the original organizational structure may be kept intact. More frequently, the larger acquiring company may retain its organizational structure and just add positions to support any new business dimensions and the additional workforce acquired. In this case a review of the existing organizational structure will suffice along with added leadership positions based on the management-to-employee ratio philosophy in place. For example, if the receiving company has a successful structure in place with a ratio of 1 to 15 (manager to employees), and 150 employees are being added as the result of an acquisition, then 10 managers would be needed. If the sending company has a similar structure and ratio, it is possible that all managers will be transferred to the new organization in their same capacity. Ah, life should be so easy.

However, let's consider a merger situation where two national companies are comparable in size, but with two different management structures and philosophies.

The first has a geographic, market-ownership philosophy. A market is managed and operated by one key leader who owns the sales, product and service delivery, and business operations, along with full profit and loss (P&L) responsibilities of that market. Depending on the size of the market, he or she has a layer of first-line managers who may specialize in each of those arenas, but ultimately one leader has accountability for the success or failure of a market.

In the second company, the structure follows a vertical alignment with ownership based on lines of business. Managers are accountable for large territories with several markets, but they are responsible for a key line of business. Their P&L responsibility covers one product or one service line over many markets.

To merge these two organizations requires that one organization adopt the other's structure, or that structure be modified to better support the combined organization. The challenge in such a situation is that managers may not have the skills and knowledge to convert from one structure to another. As you can imagine, the complexities and challenges can be great in such a situation.

Typically, I have seen the new organization adopt the structure of the acquiring company. However, you can't assume that to be the case. Whichever structure is used, by reviewing and understanding it you will have better knowledge of the overall leadership qualities needed to be successful in the combined organization, and you will know the total number of management positions that must be filled.

The following assessment steps can be used to select the best leaders when you have a situation in which there are more managers than positions. Moreover, the steps can be used to select external and promotable candidates when there are more positions than candidates.

Review the Core Competencies that Support the Business Strategy

For a merger or acquisition to be successful, the individuals selected to lead the new combined organization must support the core competencies required by the organization's strategy. The core competencies are best described as providing the competitive advantage—that is, those things that differentiate the company from its competitors. Richard Beatty and Craig Schneier (1997) provide an excellent explanation of the leadership needed for three major strategic differentiators as follows:

1. Operational excellence companies, which offer good value at the lowest possible price, need leaders who are process-oriented and cost-conscious.
2. Product leadership companies, which bring new innovative products to market faster than their competition, require leaders who are innovative and creative risk-takers.
3. Customer intimacy companies, which provide customized solutions to better serve the customer, need leaders who are customer-focused, solutions-oriented and flexible.

Again, it is essential that you understand the company's business strategy to be able to select and match the leaders who will best support the strategy.

Determine Leadership Needs by Position

Different hierarchical levels of management require different leadership skills, as do different divisions of a company. Therefore, you cannot have one leadership model against which every candidate is measured. Someone at the most senior levels of a company may require strategic thinking and the ability to inspire a shared purpose, whereas a first-line sales manager may require strong account management skills and high-level presentation skills.

Before assessing any individual for a particular position, you must understand the required competencies for the position. Template 6.1 provides a tool to help you establish the key requirements and leadership qualities of management positions. Additional or different leadership criteria and qualities can be used based on the needs of your organization. The receiving company may have a job description with leadership qualities defined for all management positions, in which case this profile, or portions of it, may not be necessary. The completion of the profile will require input from both the human resource executive and from the senior executive to whom the position will report.

Figure 6.1 illustrates a completed example for a field vice president position in an organization whose business strategy is customer-focused. As can be seen in the example, job responsibilities as well as leadership qualities, job logistics, and compensation are included. A candidate may appear well qualified for a leadership position because he has strong business acumen, is able to seize the opportunity, and is bottom-line-oriented. However, if the individual cannot interface with customers and solve their individual problems, the likelihood of his success in this particular position with this particular organization would be questionable. The leadership profile can help you establish those guidelines proactively to ensure that candidates are being measured against the correct criteria.

Figure 6.1 Sample: Leadership Profile

Business Strategy	Customer focus: strategy is driven by customer needs and wants.	
Position Title	Territory vice president	
Position Overview	Responsible for all client management, business development, account strategy, client satisfaction, and account profitability within a geographical area. Formulates long-range operating plans, budgets, and programs under the direction of the president/CEO.	
Top 5 Responsibilities	1. Provide vision and leadership to field management to ensure they have the resources and support necessary to meet their business objectives. 2. Spend at least 60% of time with clients. 3. Ensure successful delivery of corporate revenue, gross profit, and other financial targets. Territory P&L management. 4. Create and maintain an environment where employee satisfaction, commitment, and retention are maximized. Develop leaders among the regional staff by emphasizing customer interface, shared ideas, and solution-oriented thinking. 5. Manage performance and develop competencies for the regional management staff.	
Leadership Qualities		**Requirement Rating**
	Business Acumen	1
	Client Development/Management	3
	Collaborative Relationships	3
	Decision Making	3
	Develops Workforce Competencies to Support Company Strategy	3
	Emotional Aptitude	2
	Executive-Level Presentation Skills	3
	High Performance Climate	3
	Inspires Shared Purpose	3
	Integrity and Values	3
	Intellectual Aptitude	3
	P&L Management	3
	Problem-Solving	3
	Results-Oriented	2
	Seizes Opportunities	2
	Thinks Strategically	3
Logistics	Travel Required? (%)	75%
	Location Specific?	NYC, St. Louis, Dallas, Denver, Seattle
	Relocation Provided?	Yes (home buy-out program)
Compensation	Grade Level:	EX30
	Salary Range:	90K–135K
	Bonus Target/Leverage:	30% of base

Requirement Rating
3 Absolutely required for success
2 Important for above average performance
1 Enhances job but not necessary

Note: Profile created in collaboration with Kris Kerber and Joan Richard.

For a better understanding of the definitions applicable to the leadership terms, see Template 6.2.

Assess Individual Candidates

There are numerous approaches to leadership assessment; much has been documented on the subject, and there are endless leadership assessment tools, tests, centers, and simulations. Unfortunately, in my experience with mergers and acquisitions, I have found that unless the assessments were conducted prior to this current need, a more expedient method is required. Also, because there is often extreme confidentiality surrounding an M&A transaction, it is not possible to have all managers or executives go through an assessment instantly. The method I suggest can be completed quickly and without involving the entire management workforce in the process. Is it as good as the more in-depth assessment evaluations that include 360-degree assessments, simulated business problems, and strategic exercises? No, definitely not. Ideally, those assessments would have taken place during regularly scheduled succession planning exercises in the months before a merger. In reality, that probably won't be the case, so the following process may be helpful. To assess incumbent candidates, I recommend these three steps:

1. Compare each individual's leadership abilities against the position's Leadership Profile.
2. Gather and review past and current performance data.
3. Review other job compatibility factors, such as location, travel requirements, and compensation.

To illustrate how this might work in an M&A situation, suppose your combined organizational structure calls for five territory vice presidents to cover the U.S. markets, and there are currently seven candidates in the incumbent base of the two organizations. The executive over this position from each organization, along with the appropriate executive HR representative, would provide the necessary assessment data for their respective candidates.

Competency Fit

When determining whether an individual should be selected for a leadership position in the new organization, the number one action is to determine if the individual's competencies fit the business strategy. A person who is driven by creativity and risk-taking would fit perfectly into the company whose strategy is product leadership, but would be a misfit for the operational excellence strategy. The individual might well be a great leader, but he or she would most likely struggle and be dissatisfied in the emerging organization.

If there is a reasonably close fit, success will be much more likely for the individual who prefers a different charter. I have seen individuals who were hugely successful in an operational-excellence organization move to one that is customer-focused and fail miserably. They were good people and good leaders. It is simply a disservice to both the organization and the individual to try to force a misfit selection.

Responsibility Fit

Although less critical than the fit with business strategy, the ability to meet the job responsibilities of the new position is important. Here the executives completing the evaluation will review the responsibilities of the new position and compare the individual's past accomplishments in similar areas of responsibility. Perhaps the scope of past responsibility was not as great or was slightly different, but this analysis provides another measure for comparison.

Leadership Qualities

There are 16 leadership qualities defined in Template 6.2 against which to evaluate each candidate. Some qualities will be more critical in specific leadership positions than in others, therefore the work done in the prior step, will help weigh the significance of each quality.

Using Template 6.3, each candidate should be evaluated against the required criteria using a scale of 1 to 5. As the legend indicates, 1 reflects an individual who needs improvement in a particular area of leadership, and 5 indicates that the individual not only exhibits the leadership behavior but is so competent as to be a role model for others. When assigning ratings to each quality, it will be helpful to review again each of

the definitions provided, as well as for the evaluation teams from each organization to discuss the ratings for comparable calibration.

In the example shown in Figure 6.2, there are seven individual candidates for five territory vice president positions. The first four individuals are with the sending organization; the last three are with the receiving organization. Each person has been rated on all 16 leadership qualities, and the weighted total has been provided (by multiplying the rating against the requirement of that leadership trait for the position available).

Performance

The performance of each candidate is a critical factor to review, and this data can provide what may be considered more objective information in the evaluation process. The score for Last Performance Rating may be taken from the organizational records, whereas Current Performance may be based on the evaluator's knowledge of the individual's achievement of existing objectives and goals. Although ratings between the two companies may not be perfectly aligned, it is worthwhile to know when a candidate's performance level has been average versus outstanding, or at 85% versus 125%.

Logistics, Compensation

A candidate's ability to meet travel requirements and the individual's relocatability may be based on existing job requirements or past conversations with the candidate. Unfortunately, the relocatability factor can be crucial in a merger situation. Employees who are located in a city where the new organization is not focused and where it has no future plans may have few alternatives. Do not indicate that a person is not relocatable unless it is has been confirmed by the individual. In other words, don't make an assumption, as it could lead to serious consequences—namely, a person's being laid off even though he or she was truly willing to move.

Why Bother?

The Leadership Assessment tools help provide a more fair and impartial selection process in two ways. First, in the heat of the merger, they help

Figure 6.2 Sample: Leadership Assessment

Position Title	Territory vice president						
Position Location	NYC, St. Louis, Dallas, Denver, Seattle						
Candidate Name	Ellene Ban	David Douglas	Sidney Welniak	Phil Jensen	Tom Morgan	Marilyn Gray	Heather Greene
Service Date	7/2/87	9/9/93	10/2/90	3/16/98	7/18/98	12/11/98	8/16/88
Candidate Location	Denver	Kansas City	St. Louis	Dallas	Dallas	NYC	Phoenix
Current Title	Area VP	Area VP	Area VP	Area VP	District Director	District Director	District Director
Competency Fit with Business Strategy	3	5	2	3	4	5	5
Proven Ability to Meet Future Responsibilities	4	5	3	4	3	4	2
Business Acumen	3	4	3	2	2	2	2
Client Development/ Management	4	3	2	4	4	5	4
Collaborative Relationships	3	5	3	2	3	3	5
Decision Making	4	4	4	3	4	4	3
Develops Workforce Competencies to Support Company Strategy	3	3	3	2	3	5	5
Emotional Aptitude	4	4	2	3	3	5	3
Executive-Level Presentation Skills	3	3	2	3	4	4	5
High Performance Climate	4	5	4	3	4	4	4
Inspires Shared Purpose	4	5	4	2	4	3	4
Integrity and Values	4	5	4	2	4	5	5
Intellectual Aptitude	3	5	3	4	4	4	3
P&L Management	5	4	2	2	3	5	3
Problem-Solving	4	4	5	3	5	5	4
Results Oriented	3	5	3	4	5	4	3
Seizes Opportunities	3	4	3	2	5	3	2
Thinks Strategically	3	4	3	5	3	4	2
Weighted Leadership Score	155	180	136	125	163	179	159

(continued)

Figure 6.2 (continued)

Leadership % to Total Possible	72%	84%	63%	58%	76%	83%	74%
Last Performance Rating	3	5	2	3	3	4	4
Current Performance	4	5	2	3	4	4	4
Able to Meet Travel Requirements?	Y	Y	Y	Y	Y	Y	Y
Relocatable?	N	Y	Y	Y	Y	N	Y
Within Salary Range?	Y	Y	Y	Y	Y	Y	Y

Scoring Legend	
5	Role model
4	Highly effective
3	Effective
2	Somewhat effective
1	Needs improvement

Maximum Score: 215

the executive decision-makers consider not only current performance numbers, but also leadership skills. Second, they provide a higher level of consistency so that all individuals are measured on the same factors.

You may think, "What's wrong with just focusing on the current performance numbers?" When comparing factors such as revenue, operating contributions, or market growth, I have found that sometimes it is not the individual's performance that has caused success or failure. It may depend on how long the individual has been in the current position—how much time he or she has had to affect the numbers. Certainly, if ownership of a division or market belonged to the same individual over the past five years, those numbers would provide strong evidence of performance abilities in a future position. But what if someone was newly assigned to a position or area of responsibility? If the inherited market is one that has strong numbers based on the company's advertising investment, he or she looks great on paper; however, if the market is stagnant, he or she looks like a failure. In addition, the individual may be able to make short-term numbers look great at the expense of long-term growth or market and employee development.

By reviewing leadership qualities, you are able to consider not only

current performance but also future potential. In other words, these tools can help prevent errors in judgment based on being focused solely on objectives ("I don't care about anything else, as long as she brings in the numbers") or solely on subjective factors ("I really like him"). Although this assessment doesn't eliminate errors totally, it does add a consistent combination of hard results and soft skills to the decision-making process.

The assessment worksheet does not automate the decision. I have used weighted factors that incorporate the job profile requirements into the calculations as they pertain to leadership qualities, but the overall value of leadership factors versus business strategy, responsibility fit, and performance is left to the evaluator to determine based upon the business situation. Again, we cannot take all subjectivity out of the decisionmaking process, but we can hope to make it a more consistent and fair process where each individual is evaluated on comparable factors.

Select Leadership for the Combined Organization

Depending on the confidentiality requirements of the merger and the level of leadership being selected, it may or may not be possible to interview each individual candidate at this time. It is preferable, but not always feasible. Ideally, the pending merger activities will have been disclosed to the candidates, and one-on-one conversations can take place to further ensure compatibility between the individual and the new organization's direction. Regardless of the interview process, there are some additional caveats to consider in the final selection process.

Weaknesses and Strengths of the Evaluators

Leadership evaluations may reveal the weaknesses of the evaluators. One person's standards can be extremely rigid: for example, demanding that an employee complete 12 widgets per hour. Another's standards can be lax: demanding that an employee complete eight widgets per hour. One worker who makes 10 widgets per hour will be perceived by the former as a slacker, and by the latter manager as above

average. This example may oversimplify the evaluation, but the point is especially applicable when rating the soft skills.

Take, integrity, for example. If a senior executive is rating subordinates but lacks integrity him- or herself, he/she may think certain business ethics are perfectly acceptable, whereas another executive would be abhorred by the same ethics. Ideally, the HR executives involved in the process can help calibrate ratings between the two organizations.

Loyalties

Some individuals have a wonderful ability to manage *up,* but are total failures at managing *down.* That means they are quite capable of looking good to the upper echelon, while being totally discounted, or perhaps disliked and disrespected, by their employees. We like to think this can't really happen, but I've seen it too many times. Eventually, the truth emerges. In a merger situation, however, it can be especially damaging if leaders are selected without any consideration of where the employee loyalties may lie.

It is possible, without divulging confidential information, to find out who the true leaders in an organization are. In many instances, the people of greatest power and influence are the same as their titles would suggest. But there are also cases where a powerful title may reveal only a figurehead. If such a person is placed in power over a new combined organization or division, the results can be devastating. Employees may experience an immediate loss of confidence in the direction and strategy of the new organization, and employee retention may plummet.

Special Contracts/Agreements

Be aware of contractual agreements that may be in place with key individuals. Especially when an organization is in a growth-through-acquisition mode, executives may be locked into certain key positions based on prior acquisition agreements. These considerations may extend beyond position assignments to include compensation arrangements, bonus guarantees, car allowances, or other contractually binding arrangements that need to be honored when establishing leadership assignments.

Ratio of Management from Sending and Receiving Organizations

Admittedly, finding the *best* leaders for the new combined organization is the goal of this exercise. Examining the ratio of leadership from the sending and receiving organizations is perhaps a secondary or even tertiary consideration, but you may want to discuss the relevance in your particular situation.

There may be cases where the receiving organization's decision-makers simply believe their own management team is stronger and better aligned with the future direction of the company; perhaps only the top 10% or 15% of the sending company's management team will be retained. On the other hand, the receiving company may be highly concerned about the perceptions of the acquired employees and may want them to feel that a comparable percentage of the leadership is from the sending organization. In one such situation in my experience, the acquired company was about 40% of the size of the receiving company; therefore, approximately 40% of the combined organization's management team came from the acquired company. Again, this may or may not be a point of consideration for you, but you may prefer it to be a conscious decision instead of an accident.

Relocation Considerations

Relocation is an expensive ticket item for a company, but it can be well worth the cost if it means the retention of a key individual whose leadership talents surpass those of other incumbent leaders. This is especially true if the individual is one who strongly supports the strategic competencies of the new organization and has the loyalty of a large number of employees. Mergers and acquisitions can bring about situations in which there is a lack of talent in one market and an overabundance in another. In such cases, relocation for key leaders is an excellent choice. Certainly the personal preference of the individual must be considered, but it is also prudent to evaluate that individual's promotability beyond the immediate position. The relocation can provide a great opportunity for a leader to gain developmental experiences for future positions.

The Thought Process: Sample Selection

Consider now how the assembled information can help you make some tough decisions. Refer once more to Figure 6.2. In this example, note that David Douglas has the combined highest ratings in business strategy fit (5), responsibility (5), weighted leadership score (180), and performance (5); however, he's located in Kansas City. Unfortunately, the territory vice president jobs will be in five cities that do not include Kansas City. The good news is that he is relocatable—good news because this looks like one individual the organization certainly needs—and one who probably has promotional opportunities in the future. He is a keeper. We need to determine where he will perform most effectively.

Look next at Marilyn Gray. She also has a 5 in fit with business strategy; she also has the second highest weighted leadership score and above average marks in performance. She's not relocatable, but she is currently in New York City, one of the five markets needing a territory vice president. She's a keeper in that city.

Heather Greene is another 5 in fit with business strategy, although she does not have a proven track record with the VP responsibilities. Her leadership score appears good, and performance has been highly effective. She, however, is in Phoenix—not one of the five markets. She is relocatable. So, again, we need to figure out where the best position for Heather is.

Let's look now at Dallas. We have two leadership candidates in this market—one from each company. Both Phil Jensen and Tom Morgan joined the company in 1998. Tom has a slight edge on fit with business strategy (4 vs. 3), but Phil has the edge in proven abilities to meet VP responsibilities (4 vs. 3). In leadership qualities, it appears that Phil scored the lowest of our seven candidates with a 125, whereas Tom has a 163. Tom's current performance is highly effective, whereas Phil's is average. In this decision, it appears that Tom may have the edge; he would be offered the Dallas VP position.

Turn now to Sidney Welniak. Note that her fit with business strategy is a 2. This means she is struggling to support the customer-intimacy vision. Her proven ability to meet VP responsibilities is also a 2. And her performance ratings are 2s. Her weighted leadership score is 136. Sidney is located in St. Louis, one of the five key markets; however, given our other available leaders, it appears that Sidney would not be placed in the St. Louis VP position.

In Denver we have Ellene Ban. She has ratings of 3 and 4 in performance, business strategy fit, and responsibility. Her leadership score is in the average category. She's not relocatable, and even if she were, it appears her promotion opportunities would not go beyond this position. So, I would keep her as the vice president in Denver.

This leaves us with St. Louis and Seattle open. And we still have David Douglas and Heather Greene to place. The decision of which position would be offered to whom would require further inquiry into market potential, current business challenges, and personal preferences of the individuals involved.

The purpose in walking through this example is to help you understand how the one-page Leadership Assessment can assist in the decision-making process. Again, it does not provide all the answers, but it does provide a quick and comprehensive review of each individual's leadership abilities.

Getting Commitment Early On

The leadership selection process must be addressed with a sense of urgency. Letting decisions ride can cause your best talent to defect. Great leaders won't sit around and wait for their destiny to be determined for them. Therefore, you can't put off the decisions. And as soon as selections have been made, it is essential that the appropriate actions are taken to get them on board and committed to the new organization. As mentioned in Chapter 4, this may mean substantial sign-on or retention bonuses or stock incentives. Whatever compensation strategy is used at the executive level, move quickly and close

the negotiations as soon as possible. The momentum and success of the transaction can rest on these key players.

Summary

Leadership decisions are extremely critical—critical to the organization, the individual leaders, and the employee workforce. The success of the new combined organization can flourish or whither immediately after the transaction based on the leadership that is chosen. And the decisions can have long-lasting impact, well beyond the merger or acquisition. An organizational transaction of this magnitude is the perfect opportunity to place the best leaders from the two companies at the helm. Make sure that you help execute a process that optimizes this opportunity for your organization. (See www.hr-integration-tools.com for soft copy templates of the leadership selection tools.

Step 6: Determine Leadership Assignments

Task Checklist

_____ Review vision and business strategy.

_____ Review the combined organizational structure.

_____ Review the core competencies that support the business strategy.

_____ Determine leadership needs by position.

_____ Assess individual candidates.

_____ Select leadership for the combined organization.

Template 6.1 Leadership Profile

Business Strategy		
Position Title		
Position Overview		
Top 5 Responsibilities		
Leadership Qualities		**Requirement Rating**
	Business Acumen	
	Client Development/Management	
	Collaborative Relationships	
	Decision Making	
	Develops Workforce Competencies to Support Company Strategy	
	Emotional Aptitude	
	Executive-Level Presentation Skills	
	High Performance Climate	
	Inspires Shared Purpose	
	Integrity and Values	
	Intellectual Aptitude	
	P&L Management	
	Problem-Solving	
	Results-Oriented	
	Seizes Opportunities	
	Thinks Strategically	
Logistics	Travel Required? (%)	
	Location Specific?	
	Relocation Provided?	
Compensation	Grade Level	
	Salary Range	
	Bonus Target/Leverage	

Requirement Rating	
3	Absolutely required for success
2	Important for above-average performance
1	Enhances job but not necessary

Temp ate 6.2 Leadership Definitions

Business Acumen	Understands overall business goals; maintains or increases financial performance and marketshare through the application of sound business principles and knowledge.
Client Development/ Management	Demonstrates the ability to grow our business in both current customers and the marketplace; knows and understands customer needs and anticipates opportunities.
Collaborative Relationships	Works across internal, external, and geographic boundaries to deliver customer value, partners with individuals at all levels and in all functions to ensure that organizational objectives are met.
Decision Making	Demonstrates ability to use sound judgement balanced with creative solutions in a timely, systematic, and resourceful way.
Develops Workforce Competencies to Support Company Strategy	Strengthens the competitive core competencies of the organization by continually building those skills and areas of expertise in the workforce, through training, assignments, mentoring, and job rotation, using all available means of development.
Emotional Aptitude	Has the perceptive and intuitive sensitivity necessary to deal with diverse people and situations successfully.
Executive-Level Presentation Skills	Demonstrates the ability to develop relationships at the senior levels of customer organizations and persuade/influence decisions of individuals at those levels.
High Performance Climate	Is able to hire, lead, direct, and motivate a team; sets high standards, provides tools and coaching for achievement, then rewards and recognizes high performers.
Inspires Shared Purpose	Is able to establish with a team the group's mission and goals and then accomplish those goals through teamwork across functional boundaries.
Integrity and Values	Has behaviors that are consistent with organizational values; gains respect from employees, peers, and customers through keeping commitments and treating others with respect.
Intellectual Aptitude	Has the cognitive abilities (brainpower) to grasp the depth and breadth of a situation quickly and address appropriately.
P&L Management	Constantly monitors financial performance and creates actions plans to improve financial performance. Understand all elements of the P&L. Accurately budgets and forecasts.
Problem-Solving	Recognizes problems and opportunities; considers all sides of a situation and works to identify solutions appropriately.
Results-Oriented	Gets the job done in a timely manner; meets objectives without sacrificing relationships or integrity. Meets or exceeds deadlines.
Seizes Opportunities	Demonstrates initiative and innovation; takes calculated risks. Understands and anticipates customer needs to leverage competitive advantage.
Thinks Strategically	Sets goals and makes decisions based on overall business strategies. Does not engage in "silo" thinking or activity, but rather manages to the "big picture".

Template 6.3 Leadership Assessment

Position Title	
Position Location	
Candidate Name	
Service Date	
Candidate Location	
Current Title	
Competency Fit with Business Strategy	
Proven Ability to Meet Future Responsibilities	
Business Acumen	
Client Development/Management	
Collaborative Relationships	
Decision Making	
Develops Workforce Competencies to Support Company Strategy	
Emotional Aptitude	
Executive-Level Presentation Skills	
High Performance Climate	
Inspires Shared Purpose	
Integrity and Values	
Intellectual Aptitude	
P&L Management	
Problem-Solving	
Results-Oriented	
Seizes Opportunities	
Thinks Strategically	
Weighted Leadership Score	
Leadership % to Total Possible	
Last Performance Rating	
Current Performance	
Able to Meet Travel Requirements?	
Relocatable?	
Within Salary Range?	

Scoring Legend	
5	Role model
4	Highly effective
3	Effective
2	Somewhat effective
1	Needs Improvement

Maximum Score

7

Step 7
Address Duplicate Functions

Allow and acknowledge the negative emotions, but don't dwell on them. Continually get the focus of the group back on what must be accomplished to prepare for the future.

Chapter Goal

Mergers and acquisitions can bring good news to a lot of people: expanded job opportunities, revitalized business, excitement, growth, and greater market share. However, there can be a potential down side. This chapter is about the downside.

When two organizations are merged, there is bound to be some duplication in departmental functions. It is time to discuss the actions you will take to address those duplications. Once you compare functions and responsibilities, you will determine where there may be overlaps as a result of the integration of the two organizations. You will then prepare to handle the required job realignments and reductions in force. Tools and templates are provided to assist in selection, communication, and implementation of a workforce reduction. (See www.hr-integration-tools.com for soft copy templates.)

Short Term versus Long Term

Duplication of departmental functions is inevitable when two organizations come together, although it is possible that the two organizations may remain operationally detached and independent, and therefore continue to require separate and duplicate departments, such as accounts payable, accounts receivable, marketing, purchasing, and human resources. If that is the case in your situation, you may not require the assistance of this chapter.

More often, however, certain economies of scale can be found by combining corporate departments to support both organizations. The decisions may be obvious when a large corporation acquires a smaller organization. In such cases the corporate support departments of the acquired company may be closed. Short-term plans would require a transition arrangement to move the work to the receiving company without disrupting customers and business. Reductions would be phased in at the sending company, and increased staffing at the receiving company would handle the additional workload. Ideally, some of the sending company employees could be transferred. The numbers of such transfers will be greatly affected by the geographic distance between the two corporate facilities. For example, if both are in the same city, there can be a large number of transfers, whereas if one facility is in Denver and one is in Boston, there may be only limited transfers.

Long-term plans require staffing projections for a steady-state level of business after the merger is complete. In other words, during the merger the receiving company may need to employ some temporary assistance to handle the immediate upsurge in work—setting up new accounts, becoming familiar with new customers and vendors, and so on. After the initial set-up activities, the receiving departments should be able to level off with a staff to support the normal course of business transactions.

Collaborative Efforts

Reviewing the functional duplications and determining staffing projections for both short-term and long-term needs will require collaborative efforts between the HR organization and each department head. Major tasks must be evaluated along with labor hours required, position assignments, and individuals assigned to those positions.

Besides collaboration between HR and the functional departments, there will be a need for ongoing collaboration between the sending and receiving organizations. There may be a 30-, 60-, or 90-day transition period while the sending departments are closing out transactions and moving the work in process to the receiving organization. This, of course, would take place after the merger announcement, and we will address some temporary retention ideas later in this chapter. Nonetheless, this is a challenging period of time, especially in those departments targeted for closure or staffing reductions. Emotions will be high in both camps. The employees in the closing departments will feel resentment and anger for the lost jobs. The people in the receiving departments may feel overworked and confused. You may not be able to eliminate those emotions. You can, however, be sensitive to them, and perhaps facilitate moving on to the future.

Preparing for Reductions in Force

In a merger or acquisition, reductions may be required immediately after the announcement of the transaction, or they may be required after work is transitioned from a department, as was mentioned. In either case, we can follow a series of steps to prepare for the necessary actions:

1. Review department functions and determine staffing requirements.
2. Identify individuals who will be reduced.

3. Review for adverse impact.
4. Determine if the WARN Act applies.
5. Determine level of severance pay and outplacement, if any.
6. Create reduction communication documents.
7. Assign and prepare facilitators.

Further details are provided below for each step.

Review Department Functions and Determine Staffing Requirements

This requires an evaluation of major tasks performed within a department and the labor hours required to accomplish those tasks. The due diligence review of all departments should have provided historical data from the sending organization to facilitate the staffing decisions, whether those are based on transaction numbers, dollar volumes, numbers of accounts, numbers of employees, or other quantitative factors. A review of the quantity of transactions handled by the sending company should be conducted, and this will be added to the existing workload at the receiving organization. In this process it is important to consider only the tasks, not the individuals assigned to the tasks. The end result should produce the staffing projections for the new combined organization.

When calculating staffing projections, it may be helpful to use required work standards (widgets per hour) and management ratios. In the example shown in Figure 7.1, the sending company's department has a total of 25 employees, and the receiving department has 46. The receiving organization previously invested in automated processes that increased the productivity of the workers, and their support and management ratio is slightly higher. Overall, the combined organization will require seven fewer employees than the two had separately. Whether projecting staffing requirements for a payroll department, collections, accounting, or purchasing, this type of simple analysis may be helpful. Use Template 7.1 to conduct your analysis.

Figure 7.1 Sample: Combined Staffing Projections

	Sending Organization	Receiving Organization	Combined Projection	Reductions
Transactions/Day	2000	5000	7000	
Standard/Day/Employee	100	130	130	
Number of Employees	20	38	54	
Manager Ratio	1 : 10	1 : 15	1 : 15	
Number of Managers	2	3	4	
Support Ratio	1 : 05	1 : 08	1 : 08	
Number of Support	3	5	7	
Total Employees	25	46	65	

Identify Individuals Who Will Be Reduced

In some cases, an entire department will be closed, and there is little selecting or deselecting to do. Again, this may be the case when there is a great geographic distance between the two organizations and the operations are being combined. Perhaps one or two members of the management team or the most experienced and knowledgeable team members would be asked to relocate to the acquiring company. If there is a staffing shortage on the receiving end, it may be worthwhile to offer all employees in the closing department a limited relocation package if they care to move. In these situations, however, I have seen few volunteers—especially at nonexempt and nonprofessional levels.

If, because of close geographic location, it is possible to transfer a large number of the sending employees to the receiving department, it may be necessary to go through a selection process. I recommend selecting individuals based first on position function, second on performance, and third on tenure. (This is assuming a nonunion environment. Modify as required by labor agreement or legal counsel.) When reviewing performance, you should consider the most recent and prior performance evaluations as well as any documented perfor-

mance problems that have occurred over the prior year. If there is no previous documentation of performance, each employee should be rated on current performance factors. See Template 7.2, which can be used for each job title in which a reduction is projected. Once the assessment form is completed, the individuals with the lowest performance records should be proposed for separation. In cases where all factors are comparable between incumbents, length of service should be the determining factor, with the longer service employee retaining a position. The functional department heads will complete this step with assistance from human resources. Obviously, as this review progresses, it is important to consider individuals for other available positions in the receiving company when their skills match the job requirements needed.

Review for Adverse Impact

When individuals have been identified for separation, human resources should review the selected candidates along with the retained employees for adverse impact. This is to prevent the occurrence of a discriminatory trend against any group based on age, sex, race, color, national origin, or religion.

The EEOC provides a guideline of four fifths, or 80%, to determine adverse impact; that is, a selection rate for any race, sex, or ethnic group that is less than four fifths of the group with the highest rate of selection may be considered evidence of adverse impact (Employment Law Central, 2000). This is not necessarily binding in courts, and the size of the workforce and the size of the protected classes can greatly challenge the statistical calculation, but I offer this as a rule of thumb. I highly recommend that you also engage the services of legal counsel when finalizing any lists for separation actions.

Determine If the WARN Act Applies

The WARN Act requires employers with 100 or more workers to provide at least 60 days notice of a plant closing or mass layoff to affected workers or their representatives, state-dislocated worker units, and the appropriate local government. A reduction in force is considered

a mass layoff when a company terminates 50 employees who represent 33% of the workforce at a specific location. The layoffs considered in this calculation roll back to include reductions conducted within the previous 90 days at that location. Therefore, you must be aware of any layoffs that have already occurred within the sending as well as the receiving company. For example, if 40 reductions are planned in the sending company's headquarters, but there were 20 reductions just prior to the acquisition at that facility, the WARN requirements may come into effect. Later in this chapter I will discuss how this affects reduction communication documents.

Determine Level of Severance Pay and Outplacement, If Any

Severance pay and outplacement aren't legally required, but there may be a written company policy that dictates such practices during reductions in force. Certainly, being consistent with prior actions is important, but there are two other reasons to consider such benefits for employees affected by a reduction. One is to soften the financial and emotional blow for separated employees. The other is to soften the emotional blow of retained employees. Although they do have jobs, their coworkers and good friends may be affected, so the company's treatment of those individuals does impact the morale of the retained workers.

The questions to pose are "What has been the past practice?" and "What can we afford?" balanced with "What impact are we having on the community?" and "What opportunities exist for expedient reemployment for the separated workers?" In other words, the local labor market and the skill level of the workers may play a role in the decision. If unemployment is low and skill levels are high, the pressure to provide severance and outplacement is certainly relieved, compared to a situation with high unemployment and low skill levels.

There can also be enhancements built into a basic plan to encourage certain outcomes—for example, release agreements and executive noncompete considerations. As merely a reference point, not as recommended guidance for your industry, I will offer a basic sever-

ance scenario and show how enhancements might be developed from that basic plan.

- Employees are offered severance at the rate of two weeks plus one week for each year of service, based on written policy and past practice; that is, an employee with five years of service would receive seven weeks of severance.
- Employees are offered severance at the rate of two weeks plus two weeks for each year of service if they are willing to sign a release agreement. If they do not wish to sign the agreement, they receive the two-plus-one package.
- Employees at the director level and above are offered six months or twelve months of severance, depending on length of service, if they sign a release agreement with noncompete language. If they do not wish to sign the agreement, they receive the two-plus-one package.

Please note that these examples are from an industry with low unemployment rates and a strong labor shortage. The basic package may be too low in other industry situations. In some organizations a basic package of one month of severance for each $10,000 in salary is offered, the theory being that the higher the salary level, the greater the amount of time it takes to land a new position. Also note that in situations where the WARN requirements are in play and an employee chooses to leave during the 60-day notice period, no severance would be paid.

For outplacement options, you may want to consider those companies that provide services ranging from resume preparation to full executive outplacement packages including career counseling, job search, talent assessment, office facilities, and clerical assistance. Also, check with the local unemployment office to see what services are offered to help employees prepare for a job search. These types of activities help the dislocated workers focus on the future and work through the process of dealing with job loss.

One additional consideration regarding the severance package is whether any customary employment benefits will be extended. For example, will medical coverage be continued through the period of

severance? Some employers chose to stop all benefits as of the last day of active employment, with COBRA options in effect immediately. In other situations, some benefits may remain in place during the severance period. If COBRA options are in effect, the employer may elect to continue to pay the company contribution portion during severance. Several factors may be considered here. You should contact the insurance providers to determine what limitations your carriers may have; plus you may want to contact your state unemployment office as this can impact unemployment eligibility dates that vary by state.

Create Reduction Communication Documents

At best, a separation is highly emotional; at worst it can be devastating for the separated individual and agonizing for the person facilitating the discussion. Careful communication preparation can help ease a difficult situation and keep self-esteem intact. The managers or HR professionals selected to facilitate separations will need a communications package that provides them with critical information for the reduction discussion as well as pertinent information for the individual. In situations where the WARN Act does not apply and employees are separated without notice, I recommend that the following be included in the communication package:

- Instructions for the facilitator
- Individual separation letters
- Written Q&A documents
- Contact lists and phone numbers
- Exit checklists

In situations where notice is given, such as when WARN requirements are triggered, the package will include two items on the day of notification:

- Instructions for the facilitator
- Individual notification letters

The same four remaining documents are included at the day of separation:

- Individual separation letters
- Written Q&A documents
- Contact lists and phone numbers
- Exit checklists

Instructions for the facilitator should include logistics and timing of the discussions and possibly a brief script of what to say. If severance and outplacement are provided to the affected employees, details of the severance policy and contacts for outplacement should be included. Contact information should be listed, such as someone who can respond to urgent medical coverage concerns, security in case an employee threatens violence, and communications/public affairs in case the local media call with questions.

If applicable, the notification letters should follow WARN requirements with proper notice of the office/plant closure or mass layoff. It should tell the affected employee the location and anticipated date of the separation and can include any appropriate information about severance pay for the employees who stay through the required date. I suggest that the letter begin with a brief explanation about the merger of the two companies and the required reduction of the affected departments. I personally believe this perspective helps the employee take the separation less personally—to understand that the required action is part of a much larger picture and is based on the strategic direction of the company, not on personal issues.

Individual letters will explain the reason for the effective date of the separation of employment; the number of weeks of severance and how it will be paid, if applicable; the outplacement contacts, if applicable; the accrued vacation payout information; and the benefits coverage details.

The written Q&A documents will provide answers to anticipated questions. An employee affected by reduction in force may not be thinking clearly immediately on hearing about the elimination of his

position. A flood of questions may overwhelm him after he has gone home, and the Q&A document will help to answer those frequently asked questions about final pay, coverage of benefits, and other topics of concern. This document also helps the facilitators and managers ensure that consistent answers are being provided. See Template 7.3 for sample questions.

The contact list and phone numbers for separated employees can include direction for questions not answered in the Q&A. This could be phone numbers for corporate benefits at the acquiring company and perhaps the pension administrator and stock option administrator, as well as the numbers to call for payroll questions and unemployment claims. If the local manager or human resources representative is the appropriate contact for all questions, that can be communicated instead.

An exit checklist will include normal separation procedures, such as assets that are to be collected: keys, security cards, credit cards, cell phones, pagers, laptops, company confidential manuals, and customer information. It is also good to verify the employee's current address to ensure that company records are updated for any future correspondences and documents to be mailed; see Template 7.4 for more.

Assign and Prepare Facilitators

Because the separation discussion can be emotionally charged, it is important to select facilitators who are strong but compassionate communicators. Your experienced managers and HR professionals are probably good choices. Avoid selecting someone who is argumentative or immature. The emotions of the separating employees will range from anger and denial to depression and grief. It is absolutely essential that the person notifying the employee neither commiserates nor argues with the employee. He or she will need to remain calm and stick to the facts.

To prepare the facilitators, you will ideally meet with them to walk through the process, rehearsing and even role-playing a separation discussion. Reiterate that the individual discussions should be brief: 5 to 10 minutes. Anything longer can become nonproductive. If face-to-face meetings aren't possible with your facilitators, conference calls

can work, but even greater attention will be needed in the written instructions and documentation packages.

Facilitators should be coached on follow-through steps to ensure that all assets and documentation are both accounted for and forwarded to appropriate parties, and that security concerns or other matters are reported promptly and escalated if appropriate.

Retention and Stay Bonuses

In situations where employees are notified of a pending reduction in force, it may be difficult to retain the employees through the designated date. They have little to lose (severance) and everything to gain (a new career) if their job search is successful during the notification period. Yet, the transition of work functions may be critical. For example, neither the sending nor the receiving company can afford for business activities in their accounts receivable departments to be dropped. Revenue flow, cash flow, customer service, and a host of other critical business requirements would be negatively impacted. Therefore, it may be necessary to offer some type of retention or stay bonus to these employees. As with severance policies, this practice varies from one industry to another and can vary by the criticality of the function. The bonus is most frequently in the form of cash offered at the end of the designated period and is often accompanied by a signed agreement that outlines such things as the dates and performance requirements for the bonus consideration. If an employee works through the designated date, he or she receives the bonus as well as any severance and outplacement promised. If, however, the employee leaves prior to the designated date, he or she would forfeit the bonus, the severance, and the outplacement. In my experience, I have seen this enticement be quite successful in helping an organization close out departmental functions.

Bonus amounts are often calculated as a percentage of the base salary earned during the stay period. For example, if a department closes in three months and an employee makes $2,500 per month, a

50% stay bonus would pay the individual $3,750 ($2500 × 3 × 50% = $3,750). Again, depending on external market factors, the importance of the function, and the level and complexity of the job, the stay bonus can vary. I would recommend using a standard formula across job functions and levels. Whether it is 25% or 100% or a flat dollar amount, make sure you can justify why there may be variations between departments or individuals.

Maintain Business Focus

Whenever there is a reduction in force, the tendency is to focus on how to handle the people to be terminated. Often too little attention is paid to the communications and change processes provided for retained employees. They, too, may be going through a grieving process—a time when they must let go of how things were in the past and move on to the reorganized world. Chapter 10 will address this challenge more fully, and for now I will simply state that communicating to all employees is critical.

For those to be retained *and* those to be reduced, it is absolutely essential to keep employees informed of the transition of work, the short-term goals, and the progress made against those goals. I think it is also positive to communicate to the retained employees what the company is doing for those separated, such as outplacement, job postings, resume assistance, and so on. Allow and acknowledge the negative emotions, but don't dwell on them. Continually get the focus of the group back on what must be accomplished to prepare for the future.

Summary

One of the more challenging elements of mergers and acquisitions is the handling of duplicate functions produced by the combination of two organizations. It is distressing to see good individuals negatively

impacted because they are in the wrong place at the wrong time. Although you cannot eliminate this outcome, you can make the situation more agreeable by proper planning, preparation, and communication. Begin by identifying positions for elimination and people for separation in a fair and consistent manner. Then proceed with well-planned processes and communication tools for the facilitators who will conduct the separations. Finally, acknowledge the emotions with compassion, but keep the focus on the business.

Step 7: Address Duplicate Functions

Task Checklist

_____ Review department functions and determine staffing requirements.

_____ Identify individuals who will be reduced.

_____ Review for adverse impact.

_____ Determine if the WARN Act applies.

_____ Determine level of severance pay and outplacement, if any.

_____ Create reduction communication documents.

_____ Assign and prepare facilitators.

Template 7.1 Department Staffing Projections

	Sending Organization	Receiving Organization	Combined Projection	Reductions
Transactions/Day				
Standard/Day/Employee				
Number of Employees				
Manager Ratio				
Number of Managers				
Support Ratio				
Number of Support				
Total Employees				

Template 7.2 Assessment of Individuals

Department: _____ Position to Be Reduced: _____

Name	Date of Hire	Performance		Performance Factors						
		Most Recent Rating	Prior Rating	Quality	Quantity	Required Job Knowledge	Required Job Skills	Documented Awards/ Recognition	Documented Disciplinary Action	Comments

Describe Required Job Knowledge for Position:

Describe Required Job Skills for Position:

Scoring Legend—Performance Factors	
5	Role Model
4	Highly Effective
3	Effective
2	Somewhat Effective
1	Needs Improvement

Template 7.3 Frequently Asked Questions from Separated Employees

When will I receive my last paycheck?

When will I receive my severance pay?

Am I eligible for unused vacation pay?

Am I eligible for unused sick or personal pay?

When will I receive my last expense check?

When does my medical coverage end?

When do my dental and vision coverages end?

How long do I have to file my medical and dental claims?

When does my disability and life insurance coverage end?

What options do I have to continue insurance coverage?

I have a flexible spending account; how do I submit expenses going forward?

What options do I have in handling my 401(k) funds?

How will my 401(k) loan be handled?

What happens to my stock options?

What happens to the stock that I own outright?

If I have an address change, whom do I inform?

I was in the process of obtaining a degree and had tuition assistance; how will that be handled?

Will you contest an unemployment claim? How soon can I file?

What kind of references will be provided to prospective employers?

Template 7.4 Exit Checklist

EXIT CHECKLIST

RETURN COMPLETED CHECKLIST TO THE HUMAN RESOURCES DEPARTMENT

Please indicate employee's correct address/forwarding address and phone number below:

Name:

Street Address:

City, State, and Zip Code:

Telephone Number, Area Code First:

Please collect the following company property, if applicable:

——— Keys

——— Long Distance Telephone Card

——— Corporate Credit Card

——— Corporate Liability Card

——— Laptop

——— Pager

——— Cellular Phone

——— Manuals, Customer Files, Diskettes, etc.

——— Security Access Cards

Please review the following with the separating employee:

——— Outstanding Expense Reports

——— Outstanding 401(k) Loan

——— Employee Purchase Balance

——— Benefits Coverage

——— Final Paycheck, (*process final timesheet if any unreported overtime*)

——— Address Verification for **COBRA** Packet

Manager's Signature Date

8

Step 8

Prepare Employee Communications Strategy

"Silence is a sin."
—Richard Hastings, speaking on the Saint Luke's/Shawnee Mission Health System Merger

Chapter Goal

Plan what to say and who will say it. When Announcement Day arrives, a fully developed communication plan will set the stage for a successful integration. This chapter provides guidance for developing the message to be delivered to employees, along with the timing, location, method, and preparation of individuals who will deliver the information.

That is only the beginning, however. Ongoing communications, information meetings, progress reports, and newsletters must be provided, because it is in the absence of communication that the darkest, ugliest rumors will emerge and grow. And when rumors and fears are allowed to run rampant, great damage will be done. This chapter will help you minimize such fears and capitalize on the positives of the

M&A transaction. (See www.hr-integration-tools.com for soft copy communication templates.)

The Most Critical Step?

You may recall in Chapter 6 that I said that selecting the right leadership is the most critical step for successful workforce integration. I believe that to be true because good leaders know how critical the communication element is. Carefully selected leaders both inspire their employees to work through the transition and help build a better, stronger combined organization. That can be done through clear, consistent, and continuous communication.

I cannot emphasize enough how a lack of communication from leaders of the company can destroy the momentum of the new organization, because, you see, communication will take place one way or another. If information and direction are not coming from the leaders, then rumors and exaggerated fears will be allowed to spread throughout the organization. This negative atmosphere, in turn, will chase away your better talent. They will have offers coming from all directions—from companies who are quite happy to communicate with them during this turbulent time.

During the months directly before and after a merger, there is stress and fear even in the best case scenario. Change is exciting to some and horrifying to others. At either end of the spectrum, however, change creates high emotions and high stress. Unfortunately, those emotions can turn negative because of perceptions, and not necessarily reality. False rumors of layoffs and department closures can turn into self-fulfilling prophecies. It's a vicious, destructive cycle. Rumors turn to fear. Fear leads to employee turnover. High employee turnover leads to a weakened, ineffective department. And a weakened, ineffective department can lead to closure. The antidote is communication.

With proper communication, high emotions can be cultivated to provide positive outcomes. A good leader can rally the troops and forge through the merger challenges. By building on synergy,

combined talent, and greater competencies, the leader will develop a team stronger than had been possible before the merger. And that will be done through frequent, honest, and directional communication.

Why the Vicious Cycle?

During a merger, executives can become totally focused on The Deal, and what limited attention they do keep on operating the business is often directed toward the financials. They may try to let the business run itself and may even avoid communications with the majority of those in the organization for fear that they will be asked questions they can't answer. They hope that if they say nothing, employees will believe everything is business as usual. In the meantime, employees are starving for information and accept it in all forms—accurate or not. Speculation and rumor begin to develop and grow on telephone lines, in hallways, in Internet chat rooms, and e-mail.

Granted, if the situation is one that involves publicly traded companies, then SEC regulations may dictate what can be said before a formal announcement is made. Even beyond the announcement, however, executives are still often operating within a tight circle (Marks and Miruis, 1985). They don't have all the answers or simply don't want to discuss the answers to the tough questions, so they stay out of sight or become aloof. Of course, saying nothing only feeds the rumor mill.

Because of the silence, the employees begin to fear that their jobs may truly be in jeopardy. Competitors take advantage of the situation by having their headhunters call the most sought-after managers, sales executives, and professionals. They feed the fear with more speculation from the rumors heard on the street. Customers may even get in on the action; they ask questions about the rumors. The fear grows. The silence from executive leadership becomes louder. The volume of resignations begins to increase.

Pulling Out of the Cycle

The executives and leaders at all levels of the organization must communicate, even more frequently than they have during normal business operations. They must provide direction, honesty, and as much information as possible as soon as possible. Furthermore, the leadership must coordinate and collaborate on its messages to provide consistency. Here are some thoughts to consider:

- It's okay to say, "I don't know."
- It's okay to say, "That hasn't been decided yet."
- Talk to people directly and in person, if at all possible.
- After meetings, follow-up with the same information in writing for those who couldn't attend meetings.
- It's okay to speak of unpleasant things that may happen.
- Follow-up with answers to questions.
- Listen to employee's concerns and be tolerant of them.
- Speak the truth.
- Don't make promises that cannot be fulfilled.
- Employees prefer honesty over silence, even if it involves bad news.
- Give frequent progress reports.
- Renew focus on the business goals.

Communication is not a one-time event. Especially during a major organizational transaction, it is critical to plan a series of ongoing communications. Certainly Announcement Day is a major occurrence, and the orchestration, timing, methodologies, and message content deserve extra attention. However, the follow-up meetings,

newsletters, progress reports, and goal planning are what make the new team begin to pull together, and these efforts must begin immediately after the initial announcement. In this chapter we explore the communications that should take place on Announcement Day and in the following one to two weeks. Further communications will also be discussed in Chapter 10 when we develop the employee retention strategy. For the immediate communication efforts, we will focus on the announcement of the merger/acquisition, HR hiring process meetings, one-on-one meetings, executive town hall meetings, and transition newsletters.

Announcement Day Communications

Announcement Day is the culmination of the negotiations of The Deal—the time when the dealmakers are ready to go public with the news that the two organizations are going to be combined. Communications are extremely sensitive and must be orchestrated—presented to the right people in the proper order at designated times. Because our topic is workforce integration, the communications plan here will focus entirely on the employees. However, this plan must be created in concert with the communications that will occur with clients, vendors, media, and possibly industry analysts. As the HR liaison, I have typically worked with a communications specialist (either an internal department or an external consultant) who coordinated and brought conformity to the various announcements for media, clients, and employees. In addition, bringing together representatives from both companies' HR departments is crucial to ensure that there are no gaps between the two communication plans. I recommend a face-to-face planning meeting so that there is full understanding and agreement between the sending and receiving HR heads; both sides must be clear on who says what and when to say it.

Let's now examine methodologies, logistics, message content, and facilitator selection and training.

Communication Methodologies and Logistics

The size of the combined organizations and geographic layout will drive some of the decisions about methodologies. Direct, face-to-face meetings are always preferable because they allow all employees to hear the news at the same time, and also enable an interactive, question-and-answer session. Employees can hear the answers and comments straight from the CEO. Two meetings may actually be held at one time: one with the acquiring company's employees and one with the acquired employees. Participation of senior executives from both organizations would be required at both meetings. The larger the organizations, the greater the likelihood that simultaneous meetings will be required at various sites.

If the two organizations are spread out geographically in several cities, it may be necessary to have the message broadcast from a single point to numerous sites via satellite TV, Internet broadcast, or conference call. If the two organizations being combined have employees in many remote sites and appropriate technology is not available for a single real-time message from the CEO, it may be necessary to hold simultaneous meetings conducted by local management. This is a little more difficult to facilitate because several people may be responsible for delivering the single message. Each speaker can follow a scripted message, but when questions are asked, the answers may not be exactly as the CEO would communicate. A list of anticipated questions with the recommended responses should be developed for all who lead the meetings; this will help prevent speakers from shooting from the hip. The positive side of having multilocation facilitators is that the employees are hearing the news from their local management, with whom they may feel a closer bond and ease in asking questions, as well as a possibly more personal, trusted relationship. This method requires that facilitators from numerous locations be coached on the message delivery, that times be orchestrated for simultaneous delivery of the message, and that announcement materials (transparencies, handouts, etc.) be distributed to all facilitators in a tight, precise timeline—that is after the facilitators have been disclosed regarding the merger, but

before the announcement meetings. If the employee response is expected to be volatile, speakers should be rehearsed in dealing with very sensitive questions and with difficult employees.

A combination of initial e-mail announcements tied with follow-up meetings can also be considered. This method sounds a little impersonal in that the initial news may be read on a computer monitor, but it does allow for all employees to see one consistent message simultaneously across numerous time zones. It also allows for employees to be directed to a meeting where details will be discussed. When the initial announcement is withheld, and remote employees are required to travel a great distance to a centralized meeting point, it is awkward to suggest that an employee travel to a meeting and say, "I'll tell you what it's about when you get there." This may be an unusual scenario in traditional work environments, but with more employees telecommuting, it can be a viable situation.

A critical element to consider in your planning is the timing of who hears the message when. Again, if either company is publicly traded, SEC requirements must be considered; the employee announcement must be coordinated with the public announcement. You will want your managers to be able to respond to questions by employees. And, in many cases your managers and employees must be able to respond to questions by customers. See Figure 8.1, which illustrates the timing of a trickle-down process in a combination of two larger organizations with operations and employees located in cities across the United States. The methodology of both e-mail and local meetings is utilized, and timing is coordinated between the two companies as well as with public announcements.

Message Content

The purpose of the message is to share with all employees that two organizations have been, or are about to be, combined. The anticipated benefits and goals of the M&A transaction should be communicated clearly so that employees from both sides of the equation understand why this organizational change is happening. The message should include the vision and mission of the new combined organization, as well

Figure 8.1 Sample Section: Communication Timeline

Date	Time	Action	Comments
A-Day–2	A.M.	Disclose vice presidents and above.	
	P.M.	Vice presidents alert selected facilitators of A-Day – 1 calls.	
A-Day–1	9:00 A.M.	Send e-mail to facilitators announcing Conference Call at 4:30 P.M. EST.	Include all managers and HR personnel designated to run meetings on A-Day.
	4:30 P.M.	Both companies issue news release of merger.	
		Employee presentation kits (including Q&A) are e-mailed to all facilitators.	
		Conference call with all facilitators.	Announce merger. Review presentation kits. Review Q&A.
A-Day	9:00 A.M.	President/CEO to send e-mail to all employees with announcement of merger.	
	ASAP	Announcement meetings held in all locations.	

Note: Sample timeline provided, with permission, by Herb Foster of Foster Communications.

as the advantages and synergies expected, whether they are improved customer service, expanded market share, broadened competencies, or greater research and development advances.

It is important to consider the make-up of the various employee groups when creating the messages to be delivered. It may be necessary to customize the message for different audiences. For example, the employees from an acquiring company will need to hear why the acquisition is being made, what benefits are anticipated, and how the acquisition may change their work environment, organizational structure, and so on. The acquired employees will need to hear a great deal more, such as the history of the acquiring organization as well as its leadership structure, growth, major events, recognition in the industry, and perhaps its revenue/profit trends. If some departments will be closed, obviously the message will have different objectives. The tone will be more subdued, and the message will include anticipated transition dates, transfer opportunities, and, if applicable, stay bonus, severance, and outplacement information.

This is an opportunity to begin to build pride in the new "bigger, better" organization. However, I caution you to not go overboard with employees who have been bitter rivals with a competitor that is now acquiring their company. Be sensitive to their feelings of having lost the war. Show respect for past accomplishments of both organizations, and reiterate that it is the synergy of the two that will create greatness.

Employee reactions can range from, "This is great news; I've always respected this company," to "I'll wait and see," to "I've competed against these jerks for years, and now you expect me to happily join forces with them? You must be crazy." The direction and cues provided from management and meeting facilitators can help to make the reception more like the former than the latter. It is critical to win over the informal leaders of the employee groups, which may require one-on-one meetings to begin building the new team.

The announcement materials for the acquired employees should include a Q&A sheet with answers to anticipated business questions. This allows the facilitator to discuss such questions with answers provided; see Template 8.1. This information won't take the place of an open Q&A session during the meeting, but it does help provide more consistent facilitator responses to general questions. These Q&A documents must be developed carefully, as is true with anything put in writing, especially during this time of heightened scrutiny.

Along with the business-focused message, there will need to be some discussion for acquired employees regarding pay, benefits, and HR-related topics. This can be brief as long as follow-up meetings are planned for more in-depth discussion of these topics. At the very least, a few bullet points that can be stated to calm immediate fears would be helpful:

- Your past years of service will be recognized and transferred to RCVG Co.
- Vacation balances will be transferred to RCVG Co.
- Paydays will continue to be biweekly.
- Medical and dental coverage will begin on your first day at RCVG Co. There will be no lapse of coverage.

- You are invited to two follow-up meetings; a one-on-one with your manager, and a group meeting with your HR representative.

In addition, for acquired employees I recommend distributing welcome packages with new hire/transfer materials and information. If the initial announcement is made through local meetings, the welcome packages can be handed out. Otherwise, they can be mailed to homes or sent to facilitators for the follow-up HR meetings. Recommended materials to be included in the packet are as follows:

Welcome Package Checklist

- Welcome letter from president/CEO
- Copy of press release about merger/acquisition
- Presentation highlights of purpose of merger/acquisition
- Fact sheet about acquiring company
- Annual report from acquiring company
- New hire paperwork (application, I-9, W-4)
- Benefits enrollment materials (brochures, summary plan description booklets, forms)
- Payday/timesheet instructions
- Employee handbook
- Code of conduct
- HR Q&A

You will note there is another Q&A document in the welcome package; this differs from the business Q&A and provides answers to HR-related questions pertaining to compensation and benefits, work and performance policies, and so on. See Template 8.2 for examples of questions to anticipate and answer in advance. You may want to add more questions based on the benefits and compensation strategy completed in Chapter 5, or you may find it beneficial to include sections of the two comparisons (from Chapters 3 and 4). Either way, I

highly recommend that you document answers to these or similar questions for your particular situation. It will prevent misunderstandings and will help the facilitators to respond proactively to concerns. Also see Appendix B for a sample HR Q&A with answers provided.

Facilitator Selection and Training

The people who are selected to facilitate initial and ongoing employee meetings can set the tone for the transaction. Obviously, if you are lucky enough to have all employees located in one facility where the CEO, president, vice president of human resources, and other senior executives can facilitate all employee meetings, you are starting with an advantage. However, if you have a geographically dispersed workforce, you will rely on numerous people to deliver the messages on Announcement Day and beyond.

Those selected are ideally the leaders who will serve in the new, combined organization. They must be able to share the vision of the future company, understand the reasons for and benefits of the merger, and positively deliver the message to employees who may doubt the rationale for the transaction. With the proper commitment and conviction, the facilitators will begin to instill the excitement and pride that is so critical during times of stress and uncertainty. If the wrong people are chosen for this crucial task, the employees will immediately sense negative emotions, and the negativity will spread quickly. This is no place for the pessimists and cynics.

Those who do facilitate will need the proper tools and preparation. The tools are the facilitator instructions and communication documents: presentation materials, Q&As, and handouts. The preparation should include training, coaching, and practice. Preferably, this is live and in-person coaching with the senior executives, but long-distance coaching through conference calls, video teleconferences, or Internet broadcast with materials in hand may be necessary. Whichever method is used, it is important to impress upon the facilitators how vital a role they will play in ensuring the success of the entire transaction.

For leaders with good presentation skills, the delivery of the prepared presentation may not be as difficult as answering questions. Written scripts can be provided; and, as mentioned earlier, the Q&As can be extremely helpful. But the one absolute rule that must be followed is "Provide answers to questions only if you're sure of the answer." Guessing can create painful consequences if the speculation turns out to be wrong. As stated earlier, employees are hungry for information, but they want honest and accurate answers. It is better to say, "I don't know; I'll find out and get back to you," than to respond with an inaccurate guess. Credibility and trust are on the line. Of course, that requires that answers are found and that follow-up occurs as promised.

The facilitator training session may best be concluded with the facilitators being encouraged to ask their own questions of the senior managers in order to be clear about the responses they may be called upon to give. Their questions may also become part of the Q&A. For this session, it is beneficial to have the CEO or president available. This allows the responses to be heard without interpretations or filters from others, and it will help the facilitators express answers to their employees' questions better.

For facilitators of closing departments, a "rah-rah" positive attitude would obviously be out of line. Nonetheless, these facilitators can still provide a positive influence for the group to help employees deal with their loss and anger, and then focus on what must happen next: transitioning work-in-process, closure of the department, and finding new jobs. Again, honest and accurate answers are critical. In a department closure I recently experienced, the manager/facilitator created a list of over 25 questions employees asked that he couldn't answer. In the following days we developed the responses, and he copied the answers to all his employees. Throughout the 90-day transition, he continued to respond to their questions and concerns. On their final day of work, I helped conduct exit sessions with many of the employees, including the manager. Many expressed their thanks and said they had been treated with respect and compassion throughout the entire closure process. There was no significant anger; the manager had helped employees work through that. There was sadness and a few tears, but

several people talked of what they would be pursuing next with anticipation and excitement in their voices.

Following the Announcement of The Deal

Immediately after employees have been notified of The Deal, on Announcement Day or perhaps the following day, human resources should hold meetings with employees to present the compensation and benefit information. Brief references may have been provided in the initial announcement to help remove some levels of anxiety, but a full, comprehensive presentation should be made to cover all the general work policies/procedures, compensation, and benefit news. Much like a new-hire employee orientation, this meeting should provide detailed information to help employees enroll in benefits if necessary, understand where significant changes are occurring, and work through transition processes. The transition strategy created in Chapter 5, which indicates variances between the two organizations, serves as a springboard for much of the presentation material. This can be woven throughout the acquiring company's new-hire presentation materials. These meetings can be conducted by human resource representatives, if they are available, rather than the operational managers. Better yet, the two may present together. That allows the managers to know exactly what employees are told, and they can later ensure that employees understood the new plans correctly.

Depending on the situation, one-on-one meetings with managers may also be held in the hours immediately following announcements. Certainly there is a need for individual meetings if there are new reporting relationships, if offer letters are deemed necessary, if pay or total compensation is changing, or if job responsibilities are significantly altered. In other words, unless management, responsibilities, and compensation will remain exactly the same, one-on-one meetings are recommended.

And Beyond . . .

In the days following an M&A announcement, the list of tasks to be accomplished is staggering, and everything seems to be a priority. But I think it is crucial that senior executives get out and talk to the employees, especially to those people facing the greatest change—the people being acquired. Yes, it is important to talk to key customers, but consider this: Educated employees can give multiple customers the assurances they need to hear. Executives can spend an hour with a customer, or they can spend an hour with 50 employees, who will then be able to talk with greater confidence and assurance to all of he customers in which they come in contact. It is exponentially more effective to spend a few hours with the internal customers.

The executive visits may be like a Town Hall meeting with no more than a reiteration of why the transaction is good, or they may focus on the vision and strategy of the future, discussion of challenges being faced and how they are being handled, or further overview of the acquiring company's history, growth, and customer base. Aside from the formal presentation, however, it will be the executive's ability to interact with employees on a personal level that will win people over to the new organization. The unspoken questions are, "Can I trust this person?" and "Do I want to work for an organization that is lead by this person?"

Although some employee groups may not hesitate to bombard the executive with questions, others may be reticent. One method that can be helpful to encourage employees to ask questions while the executive is available to them is to provide three-by-five cards so that questions can be submitted anonymously. The underlying message says, "There will be no repercussions. You can ask whatever questions are concerning you." This method can work as well in advance, if employees submitt questions prior to the executive's visit. He or she is then provided the list of questions before beginning the presentation. This

may actually be preferable for the executive, who then has time to develop answers. Someone should be assigned to take notes, so that a written synopsis can be distributed to employees after the meeting. This is especially helpful for those who were unable to attend.

An additional method of communication to reassure transitioning employees is a weekly or biweekly transition newsletter. This newsletter can address ongoing operational challenges during the transition, supply training information on new processes, and provide follow-up answers to frequently asked questions. I have seen this become a document that is relied upon from an HR perspective as well as from an operational perspective. Topics addressed can range from systems downtime to commission calculations, and from parts-supply processing to employee purchase programs. Questions continually arise, and this is a great method for distributing answers to all affected employees.

Summary

The handling of the M&A announcement is critical, but it is the ongoing communications that will gracefully bring closure to the old and begin the revitalization process. If the employees are truly considered key assets of the organization, these communications should not be viewed as nice, touchy-feely HR things to do. They are essential actions to protect and preserve the investment that has been made.

As Richard Hastings, CEO and president of St. Luke's Shawnee Mission Health System in Kansas City, said when speaking about a merger that brought together a 108-year-old organization with a 35-year-old organization, "You cannot overcommunicate. And, you need to communicate at e-speed, because the rumors fly that quickly. Use e-mail, v-mail—every communication resource you have."

THE SELF-FULFILLING PROPHECY

Background

A national corporation acquired a smaller U.S. company with seven sales and service sites located in cities throughout the West and Midwest. In four cities there were duplicate offices between the two organizations, and there were plans to combine these offices. In three of the cities, the acquiring company had no presence. The business in those three cities was considered a welcome addition to the acquiring company—new markets with new customer opportunities. Boise, Idaho, was one of those three markets.

A Fear Grows in Boise

Acquired individuals in Boise worried that their small operation with only 14 employees couldn't provide the breadth of business opportunity that the acquiring company would want. What began as idle chatter over coffee grew to hour-long discussions. Speculation about closure of the office became the subject of every conversation. One person's pessimistic view became the next person's quote. The manager contributed to the problems. He believed the employees were probably right and began to stay in his office with the door closed. He decided to pursue job leads he had previously rejected. Instead of making sales calls, the sales team began to interview for jobs. Two of them resigned within three weeks of the acquisition.

Too Little, Too Late

The regional director from the acquiring company notified the location manager that she would be visiting Boise. Arrangements were made to meet in the office at 10:00 A.M. the following Monday. The director arrived at the airport as scheduled, rented a car, and headed to the office. To her surprise, she found a note on the manager's desk stating he would save her the effort of letting him go. He had started his new job that morning.

After holding a meeting with the remaining members of team, the director learned that half of the employees had pending job opportunities and were ready to resign. The entire sales team would need to be replaced, and the service organization was not far behind.

The Results

The Boise market had been only marginally profitable, and with the added challenges of finding and hiring a new manager and sales organization, it was determined that it would take many months to build a profitable business. The acquisition was requiring a great deal of attention in the larger markets, and the regional management team could ill afford to focus great time and energy on the Boise market. The decision was made to close the office.

FACE-TO-FACE

Background

A New York-based company acquired a California-based company. Both organizations had sales offices located in cities nationwide, and they had been hostile rivals over the years. Corporate executives in California would not be part of the combined organization in the future. Throughout the West and Midwest field organization, there was great speculation about the trustworthiness of the "slick New Yorkers" who would be running the combined entity. The "three-piece suits, the accents, the fast-talking," and, most of all, the bitter stories of how customer battles had been won or lost in the past all contributed to a sense of anxiety.

An Investment of Time and Presence

The president of the New York company decided to tour the country in the month following the merger personally. He visited every site, met

with the employees, and made three or four customer calls in each city. Lo and behold, employees discovered a likeable man instead of a villain. Tough, demanding questions were asked, and he gave direct, straightforward answers—no beating around the bush. Although there were times he didn't know the answers, he promised follow-up responses that he delivered within a few days. He wanted to know what challenges were being faced and what barriers got in the way of new business. He listened and took notes.

People learned that the president had three children and that he loved to play basketball; his smile was warm and his laugh was genuine. He was intelligent and hardworking—putting in long hard hours day after day. He made coffee when the coffeepot was empty! He didn't expect anything from others that he wasn't willing to do himself. Could this East-coast guy be trusted after all?

Results

In city after city, there was renewed excitement about the business. People found that their key customers responded well to the personal visit from the president of the new company—especially those customers who had never met his counterpart from the acquired company. Before his nationwide tour was finished, e-mails began to be distributed with the follow-up answers that had been promised.

The angry rumors about fast-talking Easterners were replaced with discussions of how to get more business. Employees quickly worked through the pain of change, and the focus, once again, was how to win the next customer.

Step 8: Prepare Employee Communications Strategy

Task Checklist

_____ Determine methodologies and logistics for initial announcement.

_____ Develop message content/presentation materials/Q&As/welcome package.

_____ Assign and prepare facilitators.

_____ Hold announcement meetings.

_____ Hold HR meetings.

_____ Hold one-on-one management/employee meetings.

_____ Hold town hall meetings.

_____ Prepare and distribute weekly transition newsletter.

Template 8.1 Frequently Asked Business Questions

Business Strategy/Operational Questions
We had a successful, profitable company; why was this necessary?
What is the business strategy of the new company?
How will this change the products/services offered to our customers?
When will the deal be officially closed?
How should we answer the phones? What company name should we use?
Should we order new business cards/letterhead? When?
Will I still report to the same manager?
What will the new organizational structure look like?
Will I have the same responsibilities as before?
Will I keep my same customers?
How much customer overlap is there between the two companies?
What has been communicated to our customers?
What should I say to my customers?
Will there be layoffs—Short and long term?
Will any locations/departments be closed as a result of the merger/acquisition?
How many employees do the two organizations have today, and how many do you anticipate one year from now?
Will we use the same vendors/suppliers?
What centralized support departments will exist in the new organization?
What will be the hours of operation for those centralized support departments?

Template 8.2 Frequently Asked HR Questions

Benefits Questions
Will my years of service be recognized in the new organization?
Will I have health/dental/vision coverage? When are they each effective?
Who are the carriers? What is my cost?
I have medical/dental/vision claims that I have not processed for reimbursement with the prior carriers; how long do I have to do this?
Will I have life insurance coverage?
Will I have short-term and long-term disability coverage? How will they vary?
Will there be a retirement plan of some type? Will there be any company match?
What will happen with my existing investment funds?
How will my 401(k) loan be handled?
What happens to my stock/stock options?
What happens to the vacation hours I have accrued and haven't used?
How much vacation will I earn in the future?
What happens to my unused sick or personal pay?
Will I accrue hours for sick or personal pay in the future? How much?
What holidays will be recognized in the new organization?
I was in the process of obtaining a degree and had tuition assistance; how will that be handled, and will the new organization provide this assistance?
I have flexible spending accounts for dependent care and medical expenses; what will happen with those, and how do I submit expenses going forward?
Compensation/Career Questions
When is payday, and how often is it?
Can I continue having automatic deposit?
Will my job title and pay be the same?
When and how do I get pay increases in the new organization?
How will I find out about career opportunities?
What training and development are available in the new organization?
I had shift pay; will I still receive that?
I received on-call pay; will that still happen?
I had the opportunity to earn a bonus each quarter; what will happen to this quarters' bonus? Will the new organization offer bonuses?
I had specific bonus objectives to achieve; should I continue to focus on those?
Who should we contact for questions regarding payroll?
Who should we contact for questions regarding travel expenses?

9

Step 9

Define Transition Data Requirements

As the person in charge of the HR components of the M&A transaction, you may or may not have responsibility for the transfer of payroll and HR data . . . but because this data can impact the ongoing satisfaction of employees, I have included the process in this book.

Chapter Goal

Identify the data associated with the transitioning employees who must be transferred from the sending company to the receiving payroll and human resource information systems (HRIS). Careful execution of this step will pave the way for the transfer of critical pay and employment records for hundreds or thousands of employees. Topics include payroll and HRIS data requirements, data formatting, and the importance of data testing before final transmission. Samples of both payroll and HRIS requirements and data templates are included.

As the person in charge of the HR components of the M&A transaction, you may or may not have responsibility for the transfer of payroll and HR data. This chapter is a brief overview of the critical process. The information technology (IT) groups from both companies may handle this transfer with little involvement from HR; but

because this data can impact the ongoing satisfaction of employees, I have included the process in this book.

Assess Data Requirements and Availability

When hundreds or thousands of employees are being transferred from one organization to another, and when payroll or human resource information systems are changing, the data supporting those employees must be moved to the receiving company via the most efficient, effective, and accurate method possible.

Certainly, the receiving organization can manually create initial data records on each employee, the same as new hires are handled. However, when there is a mass transfer of employees, it is much more efficient to move existing data records electronically from one database to another. This is especially efficient when the mass of employees is being moved with base salaries and many deductions intact. To effect this move, it is essential that subject-matter experts from each organization (payroll, HR, and IT) compare data requirements. This is to ensure that the right data in the right format is captured and transferred.

You must first determine what data records need to be transferred. We will focus on payroll and HRIS, and in many organizations this may be one and the same database. Keep in mind that there may be third-party providers with separate data needs; for example, if benefits are outsourced by either the sending or receiving company, the applicable parties would need to be involved to ensure that the necessary information is captured and transferred. And the same holds true with an outsourced payroll operation—the service providers will need to participate in the transition process.

Payroll is obviously the most critical element for uninterrupted paycheck handling. General human resource records may be part of, or linked to, the same database or may be in a separate HRIS system; although such records are important, the sense of urgency may be significantly less because paychecks don't rely on them.

Figure 9.1 Payroll Data Required for Transfer

Database	Information Needed	Comments or Preferred Format
Payroll	Name	Last, first, middle
	Social Security Number	123456789
	Address	Address line 1, Address line 2, city, state (XX), zip
	Shift	Percentage
	Annual Rate/Hourly Rate	Annual for exempt; hourly for nonexempt
	Status	Active vs. Inactive (LOA, W/C, etc.)
	Standard Hours Worked	40 for all full-time; specific scheduled hours if less
	Accrued Hours	Vacation, personal
	W-4 Information	Federal marital status, exemptions, additional deduction amounts
	Work State	Two-letter code
	Live State	Two-letter code
	State Unemployment Tax Code	Need legend
	FLSA Code	E for exempt; N for nonexempt
	FICA	Wages, taxes
	FICA Medical	Wages, taxes
	Direct Deposit	American Bankers Association Routing Number, account numbers, amount
	Flex Spending Participant	Deduction, YTD deduction, goal amount
	Wage Assignments/ Garnishments	Required deduction, also documentation.

Basic payroll data elements are shown in Figure 9.1. This example reflects data requested for an electronic transfer where employees are being acquired with base salaries maintained along with certain deductions and automatic deposits. Employees, in this particular instance, will reenroll in benefits; therefore the benefit deductions are not captured. In some transactions employees may be left on their existing benefit programs for a period of time, and all benefit deduction information would be captured. In this illustration vacation hours and personal accrued hours are being transferred to the receiving company; also, flexible spending accounts are being transferred, so the

amounts deducted weekly, year-to-date, and the goal amount for the year are to be included.

One other area to note is the Federal Insurance Contributions Act (FICA) deduction. In this particular example the transferring employees will not have to start deductions as if newly hired with FICA wages and deductions at zero; they will begin their employment with the receiving company with credit for the FICA balances year-to-date. This will be a benefit to those employees who will meet the maximum annual deductions based on the combined income from both the sending and receiving organizations. Obviously, this practice will vary by situation based on the purchase agreement. It is noted as a point to investigate.

Along with the regular payroll data, such as that outlined in Figure 9.1, there may be court-ordered deductions such as wage assignments and garnishments. You will want to check with your legal counsel to determine appropriate handling. In the illustration provided, the receiving payroll department needs the deduction amounts and all court-ordered documentation to be transferred physically from the sending organization.

HRIS data elements are shown in Figure 9.2. In this example, the sending company has two separate databases. Data from both will be combined into one database in the receiving organization. Various codes will need to be mapped over to the receiving system's codes, and formatting for job, salary, and training history will need to be coordinated for data transfer.

Depending on the capabilities and data available in your situation, additional information not shown in the illustration may be transferred. This may include any data on succession planning, certifications, equipment assigned to the individual, disciplinary actions, performance plans, and career and training plans.

The advantage of transferring this data is that the receiving company will have online historical data on employment histories for all transferred employees. Depending on the terms of the purchase agreement between the two organizations, the hardcopy files may also be transferred to the receiving company; that is, there may be different approaches with the full acquisition of a company versus the divestiture of one division of a company.

Figure 9.2 HRIS Data Required for Transfer

Database	Information Needed	Comments or Preferred Format
HRIS	Name	Last, first, middle
	Social Security Number	123456789
	Preferred Name	Up to 15 characters
	Hire Date	Format 01/01/01
	Service Date	Bridged service date if rehired or acquired
	Birth Date	Format 01/01/01
	Phone	Home and work
	Highest Education Level	Provide codes
	School Attended	Provide codes
	Citizenship Status	Provide codes
	Department	Description
	Job Code	Description
	Regular vs. Temporary	R for regular; T for temporary
	Full- vs. Part-Time Status	Provide codes
	Bonus	Percentage or dollar amount
	Sex	M for male; F for female
	EEO Class	Provide codes
	Disabled	Provide codes
	Salary/Job History	Coordinate format
	Performance History	Provide codes
	Training History	Coordinate format

Determine Data Formatting Required for Transfer

To ensure smooth transmission of data during the critical dates of closure, I recommend that a test transmission be created with a small sample of employee records. A spreadsheet, such as the one depicted in Template 9.1, can be populated with the required data for a small sample of employees. The illustration shows a sample of five exempt

employees' records prepared from the sending company's payroll system. A sample of both exempt and nonexempt employees will enable the receiving IT and payroll subject-matter experts to determine what preparatory actions will need to be taken when the full data transmission is received. Your test should also include various groups from the employee population, such as full-time, part-time, temporary, and regular groups, to ensure that the results for all categories of employees are as expected. The receiving company will take the data into a test mode to review for potential problems.

Obviously, this step may create questions and reveal challenges in moving the data into the receiving database. That is the purpose! It is better to learn in advance with a sample of employee records what problems there may be—and when there is time to develop a "fix." This is certainly preferred to finding compatibility issues the day before payroll must be run for 3,000 transferred employees.

A similar process can be followed with the HRIS data. See Template 9.2. Here, a sample of the same five exempt employees shows examples of data retrieved from the sending company's HRIS database.

Prepare Final Data for Transfer

When data is finalized and an acceptable format is defined and tested, the sending company will provide a full file of payroll and HRIS data for the receiving company to upload to its live databases. If proper coding and corrections took place in the test phase to ensure data compatibility, this should be an uneventful transaction; the receiving company's databases should be populated with the transferring employee data.

Again, in situations where much of the HR or payroll administration has been outsourced to outside vendors, this process will be necessary for providing timely and important data to (or between) such vendors. The same steps would be necessary for the specific data required by each vendor.

Summary

The basic points to establish are how data will be transferred, what data should be included, and what format is required. Then run a test before the actual transmission occurs to ensure that problems are resolved before live data is transmitted.

Step 9: Define Transition Data Requirements

Task Checklist

_____ Assess data requirements and availability.
_____ Prepare test data for transfer.
_____ Prepare final data for transfer.

Template 9.1 Payroll Data Transfer

Last Name	First Name	Social Security Number	Street Line 1	Street Line 2	City	State	Zip Code	Annual Rate/ Hourly Rate
Alvarez	Lisa K.	123456789	1414 Babbling Brook		Burlington	KY	41005	$40,250.00
Betts	Arlene S.	123456788	18 Governors Lane		Bethel	CT	06801	$31,775.00
Carson	Russell C.	123456787	17554 Frank Avenue		Los Gatos	CA	95032	$58,000.00
Drummel	Robert A.	123456786	16 Burton Road		Thornwood	NY	10594	$22,210.00
Knight	Deborah L.	123456785	44 Blue Ridge Drive	#22	Stamford	CT	06903	$68,450.00

Status	Standard Hours	Vacation Hours Accrued	Personal Hours Accrued	Federal Marital Status	Federal Exemptions	Current Work State	Current Live State	State Unemployment Tax Code
A	80	24.0	36.0	S	1	OH	KY	30
A	80	80.0	72.0	M	3	NY	CT	19
A	80	0.0	0.0	M	0	CA	CA	75
A	80	75.8	57.8	M	4	NY	NY	19
A	80	47.4	38.5	M	1	NY	CT	19

FLSA Code	FICA Medical	FICA	Autodeposit Transit ABA	Autodeposit Account Number	Autodeposit Amount	FSA Limit 1	FSA Balance 1
E	241.50	885.50	98765432	12345678	100%		
E	190.65	699.05	88765432	12345677	100%	600.00	410.29
E	348.00	1,276.00	78765432	12345676	100%		
E	133.26	488.62	68765432	12345675	100%	500.00	307.70
E	410.70	1,505.90	58765432	12345674	100%		

FSA Healthcare	FSA YTD Healthcare	FSA Limit 2	FSA Balance 2	FSA Deduction	FSA YTD Dependent Care
27.27	189.71	5000.00	3076.90	192.31	1923.10
19.23	192.30	3600.00	2215.40	138.46	1384.60

Template 9.2 HRIS Data Transfer

Name	Social Security Number	Hire Date	Service Date	Birth Date	Phone
Alvarez, Lisa K.	123456789	12-Feb-96	12-Feb-96	5-May-56	502/344-6117
Betts, Arlene S.	123456788	7-Jul-97	7-Jul-97	5-Mar-71	860/688-7211
Carson, Russell G.	123456787	8-Sep-98	8-Sep-98	20-Jun-53	408/762-9049
Creason, Robert A.	123456786	28-Sep-98	28-Sep-98	4-Apr-65	212/910-0754
Knight, Deborah L.	123456785	22-Aug-98	3-Mar-95	2-Jun-48	203/838-7587

Highest Education Level	School Code	Citizenship Status	Department Name	Job Title	Regular/ Temporary
G	OSU	1	Accounts Payable	Administrative Supervisor	R
A		1	Sales	Sales Support Specialist	R
G	PACU	1	Software	Senior Design Engineer	R
D	NYCCC	1	Sales	Account Representative	R
G	NYSU	1	Customer Service	Customer Service Manager	R

Full-Time/ Part-Time	Pay	Bonus Target	Sex	EEO Class	Disabled
F	$40,250.00	0%	F	B	N
F	$31,775.00	0%	F	H	N
F	$58,000.00	0%	M	W	N
F	$22,210.00	Commission	M	W	N
F	$68,450.00	10%	F	W	N

10

Step 10

Develop Employee Retention Strategy

To let go of the past, employees need to understand the future. To help them understand the future, leaders must show and articulate the vision, share the plan of how to get there, and have short-term and long-term goals to move people in the right direction.

Chapter Goal

Mergers and acquisitions bring turbulence and change. They provide employees a perfect opportunity to assess their career aspirations and consider whether they are working for their employer of choice. With management attention focused elsewhere, employees are vulnerable to calls from recruiters with other opportunities. This chapter will address employee retention actions that can be taken in the weeks following the transaction announcement. During the turmoil that often results from the combining of two companies, people need direction and communication. The recommendations in this chapter will help pull employees into the future organization. Meeting outlines that encourage employee participation and ownership in the success of the new organization are provided.

The Talent Shortage

Retaining employees has become one of the most critical business challenges of our time. It is no longer only an HR challenge, rather it is a challenge faced by the entire organization because it impacts every aspect of the business. The talent shortage is intense now and is expected only to worsen. The Bureau of Labor Statistics reports that the employment growth rate will continue to outpace the labor force growth rate over the next ten years. Businesses simply will not be able to fill all their positions. Retaining employees will become an even greater factor for business success. Business acquisitions made as a result of the need for talent will become more prevalent, not less.

Whether or not this shortage is the cause of the merger or acquisition in which you are involved, the requirement to keep employees through the transaction and beyond is essential in order to capitalize on the investment made. Companies can no longer afford to shrug off the loss of its workforce; employees have truly become a critical asset whose depletion cannot be ignored. This entire book's focus is to help you keep the employee's perspective in mind. This chapter, more than any other, is intended to help you protect the workforce investment not just during the transaction, but on an ongoing, longer-term basis.

Build Momentum

As discussed in Chapter 6, nothing is more critical to the success of a merger than the retention of the real people leaders—the individuals to whom others look for direction and reassurance. Ideally, they are the executives and managers who were selected to assume leadership positions. Obviously, leaders may also be front-line employees—

people who are well respected by their peers, and who influence the thinking and morale of the rest of the team members.

Special retention packages may be required in both situations, and that will be discussed later in this chapter. My key point is that you must fully utilize the capabilities of these people to help build momentum toward the future: "Momentum comes from a clear vision of what the corporation ought to be, from a well-thought-out strategy to achieve that vision, and from carefully conceived and communicated directions and plans that enable everyone to participate and be publicly accountable in achieving those plans" (De Pree, 1989).

Failure to build this type of momentum can result in negative momentum—taking people in the wrong direction. As discussed in the communication chapter, fear and uncertainty can grow rapidly during a merger. It can gain enough momentum to destroy all chances of creating the synergy that was anticipated.

The actions previously discussed as part of the communication strategy include the following:

- Announcement Day meetings: Providing the rationale for The Deal—the vision and mission of the new combined organization.
- Welcome packages: Presenting written information about The Deal—facts about the combined company, benefits, and answers to frequently asked questions.
- HR meetings: Discussing work and pay practices, policies, and benefits.
- One-on-One management/employee meetings: Covering job titles, responsibilities, and pay rates.
- Executive town hall meetings: Reinforcing the purpose of the transaction, the combined vision and mission, and opportunities for interaction between executives and employees.
- Weekly transition newletters: Publishing progress reports and ongoing answers to questions arising during the transition.

It is time now to focus on a plan of action beyond these initial communication recommendations. The steps of the ongoing retention plan include the following:

- Help employees manage through the change.
- Set and keep focus on business goals.
- Explore best practices and process changes.
- Provide multiple training and learning opportunities.
- Provide ongoing newsletters.
- Conduct employee surveys.
- Hold employee roundtable discussions.
- Consider retention bonuses.

My intent is to provide tools to assist in the retention of employees during the first three to six months following a major organizational transaction. Depending on your particular situation, it may or may not be necessary to implement each of these recommendations; perhaps they will be needed in a different sequence. Some situations may require all practices be implemented within the first two months; others may require a more relaxed eight months. Use these tools to your advantage to meet the needs of your particular situation.

Help Employees Manage through the Change

As I stated earlier, mergers and acquisitions bring both turmoil and change. People will adjust and be productive more rapidly if they have help working through the change—not just the obvious organizational change, but also the internal, psychological adjustment.* If there was only organizational change to deal with, we could conduct the meetings already recommended and stop there. But dealing with the psychological change takes longer because we're dealing with emotions—emotions of fear, anger, and grief. People must mentally

*From Jarie Newsome, Organizational Development Consultant, speaking engagement with The Central Exchange, Kansas City, Missouri, 3 March 2000.

accept the end of one chapter and move on to the next. In closing that chapter, there is a feeling of loss. Employees may not know where they stand; their future may be unknown. They may fear that they will have to relearn their job, with new requirements and skills. Assignments may be changed with different duties or physical locations of work. They may suffer sadness from lost relationships: Friends and associates may be moved to other departments or laid off and the team to which the employee belonged may be altered considerably. Also, employees may not understand the new direction of the combined organization, or they may simply not like it.

The following efforts should be taken to help deal with these challenges, but I'll insert one caveat. It may not be possible to win over every employee. Some simply will not accept the change. It is important to determine the difference between employees on the fence who can become positive, productive members of the new combined organization and employees who will continue to be negative and poison the morale of the people around them. It is not only acceptable, but preferable, to lose these individuals before they move the momentum in the wrong direction, even if they have a skill set that the new organization would like to have. In other words, there may be times when an employee is so filled with anger and resentment that you must encourage him or her to move on to a position more suitable for the individual's happiness.

To facilitate change-management discussions, you may want to engage the services of a professional for the higher levels of the organization—that is, the executive level and perhaps mid-level management. Depending on the size of your organization, you personally, the management team, or the human resource team can facilitate change-management discussions throughout other levels of the organization.

Consider the following recommendations by Jarie Newsome to help people deal with organizational change:

- Discuss what continues. What remains unchanged? Those things that will not change can help provide a stabilizing factor and at least some limited familiarity for employees.
- Recognize the loss. Discuss what will be missing in the future organization—for example, people, traditions, processes, and policies.

- Acknowledge grieving. Allow the emotions involved (sadness and anger) in bidding farewell to those things lost.
- Inform employees. Tell them about what to expect, changes to anticipate, problems that may be encountered, directions for the immediate future, and strategy for the longer term.
- Build the case for change and honor the past. Reiterate the rationale for the combination of the two organizations and the anticipated synergies. Describe the best from both organizations and what will be needed for the future.
- Withdraw support for the old way. Direct employees to let go of the things that cannot and should not be part of the future organization. The past may be honored, but it is over. The new vision and business strategy must be supported. Respect the past, but embrace the future.

See Figure 10.1 for further ideas to facilitate change-management discussions. This sample discussion guide is broken into three steps:

Figure 10.1 Discussion Outline: Managing Organizational Transition

Accept

Discuss reactions to the combined organization, the vision, and the mission.

What concerns do you have about the merger/acquisition or about the way it is being handled?

Discuss concerns about the following

- personal and future relationships
- personal identity
- power gains or losses
- control of destiny

Adapt

To what extent is the merger/acquisition likely to affect your daily responsibilities? How will it affect others in your immediate team/department?

How are groups outside of your organization being affected?

What will remain the same, and what will change in routines, processes, and structure?

Take Action

Write, then discuss, the things that you as an individual can and will do to move forward.

Write, then discuss, what will be better in the new world compared to the old world.

Discuss things that we, as a team, can and will do to move forward.

Discuss things you/we can do to increase the effectiveness of others in the transition.

Source: Jarie Newsome, Organizational Development Consultant, speaking engagement with The Central Exchange, Kansas City, Missouri, 3 March 2000. Printed with permission.

accept, adapt, and take action. The intent is to help employees accept their feelings about the merger/acquisition, to adapt to new ways to handle their jobs, and to take action and recommit to the new combined organization of the future.

Set and Keep Focus on Business Goals

To let go of the past, employees need to understand the future. To help them understand the future, leaders must show and articulate the vision, share the plan of how to get there, and have short-term and long-term goals to move people in the right direction. Especially during times of reorganization and turmoil, leaders must provide a setting that teaches, encourages, and rewards creative thinking and initiative; more than at any other time managers must now engage all employees in a variety of learning processes.

A combination of team meetings and individual meetings may be needed to accomplish these tasks. Whatever method is used, the manager will need to reinforce the focus on future objectives constantly to avoid the natural instinct to cling to the past and to the old way of doing business.

One of the most important things managers can do at this time is to work with their employees to develop agreement on objectives, actions to be taken to meet objectives, and a schedule to follow so that major deadlines are met.* Once there is agreement on these elements, hold the employees accountable for their deliverables. It is this type of clear, consistent direction that will help move a team toward the future.

You may need to update the reward structure to support new skills and a revised business model. For example, if the old system rewarded individual achievement, but team-based goals have now been set, then the reward system must be updated to recognize and encourage team

*From Right Management Consultants, Heartland Region, Overland Park, Kansas, *Tools for Managing Change* seminar, 1999.

Figure 10.2 Discussion Outline: Setting Goals

1. **Assess current situation.**
   What is happening now?
   Will the merger/acquisition change permit accomplishment of current goals?
   Are current goals still in line with the company mission?
2. **Envision the future.**
   Explore what the organization will look like in one year.
   Explore how jobs might change over the next few months.
3. **Listen.**
   What concerns are there in retaining customers through this transition?
   What concerns are there with changing processes during the transition?
   What do you think we need to do short-term?
4. **Clarify objectives.**
   What must the department achieve?
   What objectives must be met by employees for the department to be successful?
   Discuss minimum standards and stretch goals.
   Discuss specific accountabilities and timelines.
5. **Identify problems.**
   Are there too many objectives?
   Are old jobs and new jobs being combined with too many tasks?
   Prioritize goals.
   Start doing things differently.
6. **Encourage participation.**
   Are taskforces or focus groups needed to address problems?
   Will special assignments or training be required?
7. **Reward achievement as well as positive efforts.**
   Recognize moves toward change.
   Provide positive reinforcement for problem resolution and initiative.
   Consider a group celebration based on achievement of department goal.

Source: Right Management Consultants, Heartland Region, Overland Park, Kansas, *Tools for Managing Change* seminar, 1999. Printed with permission.

achievements. Likewise, if an employee was previously required to focus on the quantity of calls made, but must now be accountable for customer satisfaction, the reward strategy should change.

Figure 10.2 provides a guide for facilitating a team meeting with employees to involve them in the goal-setting process. As with the change management discussion, it is important to ask open-ended questions and allow employees to express their concerns. This type of discussion will help bring the new group together as a team as well as

establish performance requirements. Additional one-on-one meetings will be required to document and confirm each individual's commitment to specific goals, but the initial group meeting will help build camaraderie and momentum. Reward and publicize early successes. Find ways to celebrate your new identity.

Don't be disappointed if everyone does not jump on the new bandwagon immediately. Some employees will spend some time struggling through emotional barriers. The signs of resistance are withdrawal, anger, apathy, and absenteeism. These signs may be the result of insecurity and fear of failing or may be a reaction to the magnitude of change or loss of control. The manager may need to work individually with such employees to develop progressive steps toward goal attainment. Again, encouragement and recognition are warranted for efforts in the right direction.

About Team Building

With mergers and acquisitions comes the combination of two teams that may be complete strangers, or which may have previously been competitors and know only details gained through reputation and rumor. Teams may form eagerly, or they may resist to the point of dissolution. Each of the recommendations outlined in this chapter is intended to pull the team steadily together. I don't believe it is necessary to hold a meeting that you would actually call "team building." Instead, I believe it is more effective to focus on accomplishments as a team. It is by working through problems and challenges together that people learn to trust one another. In other words, camaraderie cannot be dictated to a group, but happens as a result of people coming through adversity together.

Hopefully, through the change-management and goal-setting sessions, you will begin to see the formation of a team. However, old habits die hard, and people who were bitter rivals may not drop their swords easily. Getting employees involved in problem resolution helps them accept change.

Explore Best Practices and Process Changes

As was most likely discovered in the goal-setting meeting, there are plenty of problems to solve. Prior to the merger, the two organizations probably had significantly different processes. When the two companies are brought together, there may be obvious process changes that must occur because of systems and technologies that are in place. In those cases, the processes must be modified to support the systems. In other situations, one organization or the other may have a more effective process that should be adopted by the combined group. Don't assume that the receiving company's processes should be the ones to remain in place. Exploring the best practices between the two organizations and then implementing process changes for the combined group can accomplish two things: (a) The more effective and efficient processes will be adopted, and (b) the team will develop further cohesion during the problem-solving process.

Depending on the level and volume of problems and process disconnects, multiple taskforces may be required to attack such situations, or one transition taskforce may be assigned on an ongoing basis to study and implement best practices. I prefer to have smaller groups with individuals from both the sending and receiving companies—people who are subject-matter experts on the process being examined. The challenge here is to ensure that an integrated systems approach is taken. You don't want a fix in one area to cause greater problems down the line in the process. The department or division leader must oversee the various taskforces to provide consistency and communication among the groups. It is helpful if he or she is versed in process improvement or if such an individual can be assigned to facilitate the groups.

Figure 10.3 provides a sample for a taskforce when two differing processes are examined and the team together determines the best combined process for implementation. Ongoing meetings with a focus on continuous improvement will most likely be required.

Figure 10.3 Discussion Outline: Process Improvement

1. **What is the current process?**
   Have a subject-matter expert from both organizations draft a flowchart of the existing process (this may be done in advance, with discussion overview in group).
2. **What must be accomplished?**
   Discuss the customer requirements.
3. **How well does the process meet the customer need?**
   Discuss common problems faced in the existing process.
   Discuss rework, missed deadlines, and costs.
4. **Develop a new standard process.**
   Take the best from both worlds.
   What can be learned from other company/industry best practices?

Some of the following may require data collection and follow-up meetings:

5. **Make the process as error-proof as possible.**
   What causes mistakes and rework?
   How can the instructions be changed to reduce errors?
   Can a checklist help?
   Would changing a form reduce errors?
   Would changing the sequence of steps reduce errors?
   Can the physical layout of the work process be changed to reduce errors?
6. **Improve the process further.**
   Can time be reduced?
   Using the new standard process, map the time required for each step.
   Are any steps requiring excessive time due to multiple approvals?
   Do all steps add value?
   Can any be removed?
7. **Measure results.**
   How can errors be tracked for future improvements?
   How can process time be tracked for future improvements?
   How can customer satisfaction be tracked for future improvements?

Note: Created with reference to *The Team Handbook*, Peter R. Scholtes, Joiner Associates Inc., Madison, Wisconsin, 1988. Printed with permission.

The outcome of such meetings should be threefold: (a) process improvements will be developed; (b) employees will share in the ownership and will therefore support the process changes; and (c) new camaraderie will develop with ties to the process team rather than to the prior organization alignment.

Process improvement and problem-solving taskforces can be created at various levels in the organization. I have seen this method used very successfully at the highest levels of a combined organization. In

this case, the Transition Taskforce is created with key executives and employees from both organizations. Their goal is to streamline critical processes that impact the organization. A by-product is that these people become focused on best practices, rather than on fears; they become familiar with one another while working on a united team and begin to develop respect and trust for all the contributing members of the team, no matter which organization previously employed them. With each success, a sense of pride is shared among the combined team members.

Provide Multiple Training and Learning Opportunities

One of the most critical retention elements for today's workforce is enhanced employability. Employers who consistently offer formal and informal training, as well as experiences that provide developmental opportunities, are most likely to retain their employees. People in today's work environment demand opportunities to advance their knowledge and skills; whether they are in a technical, professional, managerial, or executive arena, employees want to know that they have become more employable as a result of spending weeks, months, or years in any given position. Organizations that build learning opportunities into assignments will have much greater success in keeping their employees. This applies to normal business conditions (if there is such a thing anymore), and especially to situations impacted by mergers and acquisitions.

Training and skill enhancement activities can definitely help reduce the anxiety of transitioning employees. Examples range from customized training to learn the acquiring company's processes and procedures to formal training in a large number of topics. Often, employees must move into a computerized or electronic environment. Certainly training in almost any computer-related skills and various software packages will be helpful to employees in their new

assignment and will help make them more employable in the future. As indicated in the prior discussion, process improvement training can be helpful, as well as project management, customer service, and other common business courses. Whether the training is instructor-led, self-paced, or Internet-based, people who see that their employer is taking actions to enhance their skills and knowledge will more likely wish to stay with that organization.

Formal training is not the only way for employees to learn new skills. Special assignments and projects can be key learning experiences as well. Special projects can present cross-training opportunities for employees and can provide critical coverage for the business during transitions. Subject-matter experts on systems and processes can become participants in process taskforces or can serve as trainers.

Mentor assignments also provide excellent learning opportunities. When transitioning employees must learn an existing process, fellow employees from the acquiring organizations can be assigned as mentors. Obviously, the people selected as mentors must also be role models in terms of communication and process knowledge. This creates a dual effect. Newly acquired employees learn the processes, and a buddy system emerges. In addition, the mentors enhance their leadership, team-building, and communication skills.

Overall, I suggest and strongly promote any activities that improve skills and knowledge, especially when they also remove barriers between the two organizations.

Provide Ongoing Newsletters

As discussed in Chapter 8, a regularly scheduled transition newsletter can become a relied-upon avenue of communication during any merger or acquisition. This form of correspondence can be helpful to all parties and continues to serve a purpose for the entire transition period. Depending on the transaction, this could be for 60 days in one situation and 180 days in another.

As outlined previously, the newsletter also provides an excellent

means to address ongoing questions that employees may have about the new combined organization's policies, practices, and procedures. Likewise, as new systems are upgraded and as processes are developed, such progress can be reported in the newsletter. I suggest it be brief and frequent—in most cases no more than one page, weekly. I have seen such newsletters become a part of the new culture. Employees read each edition avidly and learn to rely on the newsletter to keep updated on the latest changes.

If your organization has e-mail and all employees have access to it, a regular electronic newsletter is another possibility for communication, by itself or in conjunction with a hard-copy newsletter. Questions can be included that, when applicable to the general audience, may provide further material for future newsletters.

Employee Surveys

A good way to predict employee turnover, and then possibly to prevent it, is to measure the satisfaction levels of your employees and respond as the data may dictate. I believe this is especially helpful during times of major organizational change.

If large numbers of employees entered the merger or acquisition with an attitude of "we'll see," they may have decided to stick around long enough to see how well the new organization will meet their career needs. This may mean that while executives and managers are overwhelmed with new systems and operational challenges, the employees are testing the waters. Hopefully, the previously outlined steps have been implemented and the employees will be able to participate in the changes, goal setting, and process improvements. Regardless of any individual's participation in the changes, however, great insight can be gained by asking the employees what they think.

You will want to know how well they think the organization is doing in terms of direction, leadership, and communication, as well as in meeting career/individual needs. Just as critical, you will want to

know how important each criterion is to the individual. This will help prioritize actions for improvement. Keep in mind that there is already a lot happening, so *any* recommendations for further actions must be of high importance. In other words, each question asked will be evaluated by employees in two ways, "How well are we doing?" and "How important is this to you?"

Figure 10.4 provides an example of the rating system and survey questions that can be asked of employees who have recently experienced a major organizational transition. This tool examines the employees' reactions to the communications received regarding the company direction, team goals, individual performance, and benefits transition, as well as a host of other topics that can help you see how well things are going from an employee perspective. It is certainly not an all-encompassing survey; however, it can readily identify specific problem areas related to the transition.

Various methods can be used to distribute the survey and collect the data from employees. Depending on the number of employees involved, the geographic distribution, and the resources available, you may distribute such a survey manually in employee meetings, or through the mail, telephone, e-mail, or Internet/Intranet. I have seen surveys successfully completed through all these methodologies. I suggest two ground rules, however: (a) Ensure anonymity for all participants; and (b) only conduct such a survey if you plan to take action with the data—that is, report back to the employees the findings of their survey and the actions planned as a result. To ensure anonymity, you may need to use third-party providers to collect the data. You will also want to collect valuable logistical information. At the beginning of the survey, inquire as to location and department—whatever may be applicable in your situation to allow you to identify if there are geographic or departmental problem areas.

The information gathered on employee satisfaction levels will be extremely valuable in assessing turnover risk and in identifying the steps to be taken to prevent turnover. You may want to set up ongoing surveys to measure the pulse of the employee population occasionally as well as to track the upward or downward moving trend of satisfaction.

Figure 10.4 Employee Survey

Employee Survey

The merging of two organizations can be a challenging time for all people involved. We are interested in knowing how you feel about a number of elements relating to the merger and to our new organization. Please answer each of the questions below honestly and objectively. We want to use this as a tool to understand your current satisfaction with our new organization and the priority and importance of each item to you.

Under Rating, please use the following scale:
5 = To a great degree
4 = To a considerable degree
3 = To a moderate degree
2 = To a small degree
1 = Nonexistent

Under Importance, please rank the task/item:
5 = Extremely important to me
4 = Very important to me
3 = Somewhat important to me
2 = Only slightly important to me
1 = Not important to me

Rating						Importance					
5	4	3	2	1		5	4	3	2	1
					I understand the direction and strategy of the new combined organization.					
					I know the performance standards and goals for my job and understand what is necessary to achieve excellence.					
					I feel I have a good understanding of the company policies, processes, and values.					
					Management shares information on company performance and goals.					
					I have been acknowledged when I have accomplished something.					
					I feel I have been kept up to date about what is going on in the company and have received useful information during the transition.					
					Management listens to employee issues and concerns.					
					My assignments are interesting.					
					Clear goals have been established for the team.					
					I understand how my individual goals help meet the team goals.					
					My ideas are valued.					
					I feel my benefits are comprehensive.					
					My benefits were transitioned smoothly.					
					My manager is able to confront unpleasant issues when needed.					
					I have been provided information on available training and education opportunities.					
					I understand my compensation package.					
					My manager provides performance feedback as frequently as necessary.					
					Leadership allows appropriate risk taking.					
					I feel I am part of a team and know my role.					
					I enjoy my job and plan to continue working here.					

Hold Employee Roundtable Discussions

For the meetings outlined in this chapter, a series of specific topics and discussion guidelines have been provided. I also recommend less structured time with employees. Topics will vary depending on the challenges being faced and the concerns and barriers that your team must confront. There may be need for clarification of roles, systems, processes, and policies. A discussion of gaps and overlaps may be required. Because people may be assuming new responsibilities, there are many opportunities for confusion. If roles are not well defined, employees may assume that someone else is handling a piece of the process, thus creating a gap. In another area, two different people may assume they are solely responsible for an action, causing an overlap.

Whatever problems are being faced, frustration levels can usually be reduced through communication and clarification. The frequency of such roundtable discussions should be driven by situational need. In some cases they may be needed weekly, in other cases monthly. Again, it is an ongoing opportunity for the management and the new combined team to discuss business challenges. The level of executive participation can vary depending on the organization's size and geographic dispersion.

Consider Retention Bonuses

There are many situations where retaining key individuals is so critical that a monetary incentive must be offered to ensure retention of those key people through the organizational transition. This is certainly the case at an executive level, where the value of the transaction could be greatly impacted if a key executive decided to leave the

organization in the middle of the transition period. Such key executives may have had a retention bonus built into their offer; and it would most likely include stock or stock options as an additional incentive to encourage longer-term commitment to the new combined organization.

Some situations may require actions that can provide some level of assurance that workers critical to the basic business won't leave. These workers may not necessarily be executives of the company, but their knowledge, experience, or relationships may be vital to the business.

A retention bonus needs to be substantial enough to encourage the employees to stay through the transition, and yet be affordable to the organization. As with the stay bonuses offered to employees who are to be laid off, this retention bonus must entice the key players to stay on board long enough to work through the greatest challenges. The hope is that once the bonus is paid, the employees will want to stay on board because a sense of belonging and pride in the new combined organization has begun to develop.

Retention bonuses may be calculated in a number of ways, including a percentage of base salary, an uplift on commissions, or a multiplier of existing bonus pay based on business performance. The bonus may be triggered when employees perform in their positions through a specified date, or it may be contingent upon the achievement of specific objectives during the transition period. Examples are as follows:

- Collectors in the accounts receivable department offered 50% of base salary as an incentive to continue in a position at least 90 days beyond the transaction.
- Sales force offered 25% uplift to commissions earned for the first 120 days after the transaction.
- Managers offered a 35% addition to the quarterly bonus during the first two quarters in the new combined organization.

Notice that in both the second and third example, the employees are encouraged to perform well because the bonus is calculated from

earned incentive pay. This encourages the employees to stay with the new organization as well as to deliver a strong performance to maximize the additional earnings.

Retention bonuses are not necessarily paid to all transferring employees. Notice that the sample situations involve employees who can impact cash flow (collectors), revenue generation (sales), and employee retention and business operations (management). The decision to provide a retention bonus and the amount paid must be based on the critical nature of the positions and on the impact that could be felt by the business through turnover. There are certainly situations where such bonuses are not necessary, and I present this discussion for you to consider. Circumstances vary based on industry, talent availability, and business requirements.

Summary

Open, ongoing communication and participation are critical components in keeping employees at any time, but certainly during the trials and tribulations of mergers and acquisitions. By encouraging employees to participate in managing change, establishing goals, and improving processes, they will begin to feel more in control of their destiny. And, while playing an active role in addressing concerns and problems, individual members of the workforce will begin to value the new team, gaining respect and trust for members from both of the prior organizations. This ongoing interaction will pave the way for the new combined team to develop.

Along with opportunity for interaction and sharing of ideas, employees thrive when they feel their skills and knowledge are being enhanced. Training and special project assignments can help employees continue developing their skills. In addition, ongoing informational newsletters and roundtable discussions will ease the transition period. Finally, employee surveys can reveal satisfaction levels by department, geographic location, or total organization. This data can then be used to take further actions to retain and integrate the workforce.

TRANSITION TASKFORCE

Background

A Denver-based company providing computer products and services was to be acquired, and a full integration of the buying and selling organizations would take place in the first 90 days after the public announcement. The integration involved not only the workforce, but all systems, inventory, and order processing.

Challenges

Because the two organizations had been bitter competitors over the years, there was an innate distrust of the acquiring company. The people of the acquired company shared a culture of pride in being small but mighty. Employees did not buy into the idea that "bigger is better." Some departments would be closed, and because the acquiring company's headquarters was on the East Coast, there was no hope of continued employment for many employees. For the most part, the field organization would be retained; however, their geographic dispersion in 12 business units in various cities throughout the West and Midwest created greater operational challenges.

The Transition Taskforce

Prior to the public announcement, a cross-functional taskforce was created with members from both organizations. (Each team member was asked to sign a nondisclosure agreement to ensure confidentiality of the acquisition.) People were included from purchasing, marketing, sales, IT, distribution, and field operations. The leader of the taskforce, disciplined in both quality and process reengineering, brought all its members together to begin working through the monumental task of converting to unified systems and processes. Through a series of conference calls and meetings, the group continued progress though Announcement Day and during the 90-day transition.

Results

Each business unit was converted to new systems and processes. The taskforce provided necessary training and ongoing progress newsletters. Another benefit, just as important as process implementation, was that several of the members of the taskforce became champions of the new combined organization. They communicated to other employees a message that meant more to their peers than any dictum from the acquiring company. A sense of trust began to develop, along with a flicker of pride in being part of a large national organization.

Step 10: Develop Employee Retention Strategy

Task Checklist

_____ Help employees manage through the change.
_____ Set and keep focus on business goals.
_____ Explore best practices and process changes.
_____ Provide multiple training and learning opportunities.
_____ Provide ongoing newsletters.
_____ Conduct employee surveys.
_____ Hold employee round table discussions.
_____ Consider retention bonuses.

11

The School of Hard Knocks

"You think you guys can come riding in like a knight on a white horse, and we'll bow down and kiss your feet. But we don't give a damn about how good your company is. We've been competitors for too long."
—A sales employee after hearing the announcement about his company being acquired by a competitor

Chapter Goal

Up to now we have dealt with the processes needed to make a merger or acquisition successful. Time and again, we've seen how critical these processes are and have recommended steps to take to better prepare for a successful integration. A neverending challenge, however, is dealing with the surprises and unanticipated reactions. The lessons learned from those challenges simply can't be organized into a process.

In this chapter I will share past experiences—my own and others'—to help readers better understand what can go wrong and how to take proactive, corrective actions. By sharing these real-life stories and the lessons learned from each, I hope to help you avoid making the same mistakes. No transition will be 100% perfect. Everyone understands that there will be pitfalls and prepares to overcome them, but it would be rewarding to bypass a few of them.

The following anecdotes come from a variety of people in a variety

of industries. They have each shared their perspectives of things gone wrong and the lessons they learned. Some experiences include management's intentions and perceptions versus the reality of employee reaction.

I do not name the contributors of each story; nor do I reveal company names. The intent is not to point an accusing finger or embarrass anyone in any company. The purpose is to help others avoid going down the same path. The intentions of all parties are generally very good, but good intentions cannot ensure success; only the best preparation can do that. And even then, we make errors in judgment and find out too late what went wrong.

Follow the Leader

The acquired company was politically fractured. There were distinct leaders, each of whom had his or her own followers. Relationships were dysfunctional, and the leadership team was in disagreement regarding strategic direction. For a number of reasons, the company was crumbling financially. The CEO did not want to continue in any capacity in the new combined organization. The formal leader, according to organization charts, was the president of the company. He had a strong following among the employees at the corporate headquarters, but his relationships with customers and the entire sales organization were not strong.

The acquiring company believed the president to be the leader of the people, and the CEO strongly recommended the president. Strong negotiations, a position of considerable power, and a generous monetary offer secured his commitment to the new combined organization. The president, of course, was expected to champion the cause, to lead the change, and to build momentum among all acquired employees toward the new combined organization. He would be a pivotal element in ensuring solid integration in the new company.

Unbeknownst to the executives of the acquiring organization, the true leader of the large field sales organization, a senior vice president

of sales and marketing, owned a large majority of key employee loyalties. Through a series of failed negotiations, he was not transitioned to the acquiring company. This was a loss, but the acquiring executives did not believe the loss to be catastrophic. After all, the president was committed to joining the combined organization, and the people would follow him. In the meantime, the real leader of the people became employed by a competitor.

In the weeks that followed, it became evident that the president did not have a strong employee following. He was obviously not the person who could rally the troops and prepare them for this great organizational change. Gradually, the employee base of the new organization deteriorated. Leading salespeople resigned and joined the competitor. People in critical management roles resigned. In two of the markets, the rate of turnover was particularly devastating; one person after another left for the same competitor. Over several months, several customers, along with the salespeople, also defected, taking their revenue with them.

The acquiring company was left reeling from the instability created by the loss of many key players. Executives realized that full focus was required to retain the largest, most valuable customers, and this was accomplished. However, the full value of the acquisition was never recovered. The anticipated synergy and market ownership never materialized because of the loss of too many valuable employees.

Lesson #1 From the School of Hard Knocks

The true leader may not be the one at the top of the org chart. Understand the political lay of the land, and determine employee loyalties. Then take immediate and effective actions to ensure that the real leader is retained in the combined organization.

The Knight on a White Horse

The announcement was made that a large national corporation was acquiring its smaller competitor. The two companies had been rivals over the years, and the sales organizations had had many clashes in the battle for customers in markets where both had a strong presence.

In a conscious effort to welcome the acquired employees into the new organization, executives from the acquiring company launched a communication blitz. The senior sales and marketing executive went to each of the largest acquired markets and held meetings to explain how great the new combined company would be—how much the acquired employees were going to enjoy the incredible new systems, cutting-edge online access to information, and broad, national coverage for customers. A positive, upbeat presentation was prepared with details provided about the fabulous advantages the employees and customers would now have because of the technology and enhancements of the acquiring organization.

Transitioning employees seemed to be unaware of difficulties the small competitor had been facing; they certainly didn't realize how severe the financial problems had been. They felt pride in their small company and what they had accomplished in their local markets. Most of all, they didn't like the thought of joining the large company against whom they had fought many battles for prime customers. At the end of the first announcement meeting, an HR representative remained for questions and further benefits communications after the senior executive had left for the airport. One individual expressed his resentment about the acquisition and the previous presentation: "You think you guys can come riding in like a knight on a white horse, and we'll bow down and kiss your feet. But we don't give a damn about how good your company is. We've been competitors for too long."

Not every employee may have felt as bitter as this one individual; nonetheless, others echoed his sentiments in a less direct way. The proclamations about better systems and information access came

across as cockiness instead of good news. It took a great deal of effort to repair the damage that was done. For some, time healed the feelings of anger; for others there was never acceptance, and they chose to leave the company.

Lesson #2 From the School of Hard Knocks

Respect the pride and loyalties that employees may feel toward their premerged employer. Introduce the potential of the new combined organization with a sense of humility. The future may be bright, but people need to accept the change psychologically.

The Last Annual Celebration

The acquisition of a national product division was announced to the public and to all employees. One thousand sales, support, and manufacturing employees would be acquired. People in the manufacturing center were told how important their operation was to the new combined organization. Assurances were made about the critical role the center would play, and how their quality processes, work ethic, and employee commitment were crucial to the success of the new company.

As is common during corporate acquisitions, the 400 manufacturing employees were nervous, and rumors that the center would close were rampant. They knew the acquiring company had two other large manufacturing sites, and people were therefore apprehensive about the future.

To reassure employees, a welcome party was planned by the acquiring company. The festivity would be called a first annual celebration with an outdoor cookout, contests, give-aways, and T-shirts to congratulate the employees on becoming part of the acquiring

organization. Flyers were posted, and all employees were notified of the grand celebration.

In the meantime, employees saw signs that were contradictions to the reassurance. Closed-door meetings went on for days, and then weeks. One conference room had a note posted on the door: "No Admittance." No training was provided on new integrated systems, as had originally been promised. Communications regarding processes and procedures were nonexistent. The most devastating blow of all was that the leader of the facility resigned, and a new director from the acquiring company was named. Their previous leader had spent his days out on the floor with the people, constantly talking and listening to them. When they had concerns, he addressed them immediately. He had always been open and honest, and the employees had grown to trust him completely. The new director had no interactions with the people; the office door that had once remained open at all times was now closed. There was no effort to discuss plans or progress with the local management or the employees. Morale dipped to an all-time low.

By the time the grand celebration took place, employees were intensely skeptical about the future but attended the celebration, hoping to hear some words of encouragement—a vision of the future that they could follow. However, the celebration was anticlimactic. No additional news was shared, but banners and T-shirts reinforced the message that it was indeed a "first annual" celebration.

Two weeks later the closure of the facility was announced. Two uniformed policemen were present along with the risk management team and the senior executive who made the announcement. The executive immediately departed for the airport after his farewell presentation. There was no violence; police were not necessary. But the atmosphere was filled with anger and bitterness.

The devastation of trust and morale was not confined within the walls of the manufacturing center. The news rippled throughout the entire organization. Employees personally unaffected by the closure were the ones who lost faith in their new employer: "If the future was misrepresented to them, was it misrepresented to me?" Employees could not understand how such an about-face could occur. Few felt safe, and the good things accomplished during announcements and

follow-up meetings were now all undermined. People wondered if their new employer was deceitful or simply lacked strategic competence. Either way, their feelings of personal commitment were severely damaged. Corporate integrity was questionable.

One year later, the distrust continued. Employee turnover among the acquired employees was more than double the normal trends. Negative rumors had a grave effect on morale of the retained employees, and management's reassurances were frequently questioned. It would take long-term, consistent efforts to overcome the lingering doubts.

Lesson #3 From the School of Hard Knocks

How you treat and what you say to the people who are laid off will set the tone for trust and confidence with remaining employees. Actions within a single department are never isolated. Employees hold constant vigil for their fellow coworkers.

Backfire

In an effort to expand market share in a declining industry, the owner of a California manufacturing company purchased a smaller competitor in Colorado. He made a conscious effort to preserve the knowledge and skills of the acquired organization. Although the operation was being moved to California, he negotiated generous offers with relocation packages to support the personal needs of the management team as well as other key players.

Along with monetary enticements, he empowered the acquired people to make decisions; he promised them full authority in determining business direction in their particular areas of responsibility. Not only did he spend thousands of dollars to relocate people and

make them feel at home in California, but he also made sure that they were elevated in terms of power and influence in the business.

Once the new team was in place in California, the existing managers and employees of the purchasing company soon developed a strong sense of resentment toward the team from Colorado. The power and authority they once owned was now shared or even usurped by people who had no historical knowledge of the original California operation. Originating members of the organization began to doubt the owner's confidence in their abilities and whether he valued them as critical contributors to the business.

The work environment deteriorated, and the original managers began to leave the company. The culture and the knowledge of the organization suffered irreparable losses. Within one year, a majority of the original acquiring management team left the organization. With them went valuable experience and insight about the operation, the customers, and the products. Clients saw a negative impact on customer service and struggled with the instability produced by high management turnover.

Because the acquisition gained new market share, it was considered a success. But with the vision of hindsight, the owner would have handled the entire transaction differently. He felt he "overaccommodated the acquired management, spent a fortune on relocation, and it all backfired." In retrospect, he wished that he had taken a more moderate approach with the Colorado team and shown equal appreciation of his original team. His actions should have reinforced how important all individuals were. Instead of empowering the new management team, he could have had problem solving and process improvement addressed through a core taskforce with members from both organizations.

Lesson #4 From the School of Hard Knocks

In the effort to retain employees from the acquired company, don't underestimate the impact on your existing employees. They, too, may feel loss, fear, and anger. They must be shown that they are valued in the combined organization.

The End of an Era

An employee from an acquired organization in the Midwest shared the following account of what not to do when encouraging employees to let go of the past and move to the future. His employer was a company founded in the 1950s that over the years had became known in the local community as the employer of choice. The community relations and reputation of the company and its founder were unsurpassed. His management philosophy was based on respect for individuals and their contributions. Employees worked hard and were rewarded accordingly.

After the founder's death, employees and the surrounding community mourned the loss of an outstanding leader and community hero. Through a series of mergers and acquisitions over the following five years, the company operation was, for the most part, to be moved to the East Coast. A small manufacturing component would be maintained, but all other employees were being laid off. People who had been with the company for over 30 years would be without jobs. Although relocation options were available, the majority of employees chose not to leave the Midwest. A sense of loss permeated the business campus and the surrounding area.

Outplacement opportunities were provided for the employees who were losing their jobs. To help the retained employees accept the change and become motivated as members of the new acquiring company, a motivational speaker was sent to facilitate a change-management seminar. In the change management meeting, employees were told to take all the traditions and customs of the past and "flush them"—to get rid of them once and for all.

The audience of employees—profoundly loyal to the originating firm—was insulted and outraged. Hostility and bitterness immediately spread throughout the group. The intent to facilitate change and motivate toward the future was a complete failure.

Neither the motivational speaker nor the acquiring company

understood the strength of the original culture and the reverence for the founder that still flourished among the employee population. This misunderstanding was interpreted as a lack of respect, and it would be a long time before employees would forgive the speaker's insensitive remarks.

Lesson #5 From the School of Hard Knocks

Take time to learn what traditions employees hold in high regard. Never demean or belittle that which is cherished. Honor the past and show respect for the successes.

Hindsight is 20/20

In an industry known for labor shortages, an acquiring company recognized the risk of losing critical members of its newly acquired sales force. Competitors were hovering; phone calls from recruiters were known to be rampant. And, as with many acquisitions, the organizational changes prompted many employees to examine their alternatives.

Executives of the organization knew that key client relationships were developed over long periods of time and that customer loyalties are often integrated with both the company and the sales representatives. Because of the critical link between the sales professionals and the retention of customers, the acquiring executives determined that retention bonuses would be necessary to keep the sales force, as well as the acquired client base, intact. A bonus was announced that would provide a lucrative payout to all sales representatives who would remain on board with the newly combined organization through a six-month target date.

Over the following six months, revenue generation among the ac-

quired workforce was anemic at best. The acquired company's existing business leveled off; very little new business was captured. Sales representatives were not focused on business development, either with existing or new customers. It later became evident that a large portion of the sales force simply rode out their six months to make sure they got their bonus payouts, but left the company shortly after retention checks were distributed. Certainly, to depict the situation fairly, problems were rampant with leadership and communication challenges.

In hindsight it was clear that the retention bonuses, for the most part, were a waste of money because of the lack of accountability associated with them. Bonuses were paid to many people who weren't performing and had no intention of staying beyond the target date. Two things were noted for future acquisitions: (a) The bonus should have been contingent upon required levels of performance, and (b) managers needed to hold individuals accountable for performance.

Lesson #6 From the School of Hard Knocks

Link retention bonuses to accountabilities. Follow through to ensure that managers are optimizing the return on investment by setting performance goals and responsibilities.

Culture Shock

When two multibillion dollar corporations were combined, employees were told, "This is a merger." It certainly sounded better to the affected employees than, "You've been acquired." But in reality, it was truly an acquisition, and the work policies and practices of the acquiring company would be thrust upon the employees of the acquired company.

Over the years, the acquired employees had moved from an autocratic culture to one of empowerment. Through total quality management and process-improvement training, authority and decision making had been pushed down to all levels of the organization. An atmosphere of shared problem solving and fewer approvals had become the accepted practice.

The acquiring company, on the other hand, was led in an autocratic manner. Immediately after the "merger," managers and executives required that their approval be sought before decisions could be finalized or actions could be taken. Employees were sent notification that the dress code would be one of business professional. Overnight, Dockers were out; ties were in. The hours of work would be 8 to 5. Flexible working hours would no longer be encouraged—nor even allowed.

The results certainly impacted employee turnover; but in one particular department, business development activities that effect new customer acquisitions were delayed by at least six months. The employees who knew the annual planning process were told to wait for their new manager to determine the next actions. Normally scheduled spring promotions and mailings were delayed until fall. Employees understood that the business strategy had changed, and delayed decision making was perhaps a price that must be paid. They were highly concerned, however, that those revenues would be negatively affected. People who had grown accustomed to shouldering business accountabilities now felt powerless; being proactive was no longer a rewarded behavior.

Six months into the integration, many employees examined their options with other companies—companies where there was greater flexibility in dress, in work hours, and in decision making. Many decided to leave.

Certainly, the integration of two distinctly different cultures is a huge challenge. Decision making that has been pushed down to line-level employees cannot be accepted or supported in an authoritarian environment. One must ask whether it is necessary to enforce all the acquiring company's rules strictly—the rigid dress code, the standard

working hours. Is anything to be gained? Is there enough to be gained by the retained employees to make up for the employees who will be lost?

Lesson #7 From the School of Hard Knocks

Before assuming that the acquiring company's practices and policies are the better preferences for the combined organization, consider the impact versus the value gained. People who have had a taste of flexibility will experience resentment when forced back to standard, rigid rules.

The Redheaded Stepchildren

One year after the purchase of a financially struggling organization, transitioned employees continued to feel like outsiders. With each month, fewer and fewer people remained from the initial acquisition.

Executives of the large organization openly berated the business expertise and management abilities of the executives of the purchased company. None of those executives had been transitioned in the acquisition—"They didn't know what they were doing; they sure didn't know how to run a company"—so what could it hurt to share opinions?

What the executives didn't seem to realize was that the acquired employees had once felt a strong sense of loyalty to those discredited managers. They had liked and respected those individuals and had followed their direction for years.

The employees felt like second-class citizens and were tired of hearing how "lucky" they were that they were acquired. After twelve months, only 40% of the transitioned employees remained on board; 60% had decided to move on to new jobs where they could be recognized for their talents rather than their luck.

Lesson #8 From the School of Hard Knocks

Don't berate or degrade prior management of an acquired company. It can only serve to divide the team and alienate transitioned employees. Respect the past. Judging yesterday's actions on today's information is unfair and risky.

Coping

A pharmaceutical company with 180 employees was to be acquired by a larger organization; all but 15 people would have jobs and would be transferred to the acquiring company. The HR manager wanted to help the 15 individuals who would be laid off, and she received permission to extend outplacement services. She engaged the services of a professional organization that provided personal career counseling sessions and resume development classes. At first the outplaced employees were skeptical about the worth of these services but were genuinely pleased that the company had valued them enough to arrange the services for them, and they expressed appreciation for the help. They found that the services were indeed extremely valuable in assisting them with their new career search activities.

What the human resource manager failed to anticipate was the fear, resentment, and sense of loss from the 165 individuals who were to be transitioned to the new company. She had assumed they would be fine—after all, they had jobs! There had been nothing done to help these people deal with the changes they were experiencing or the intense emotions they were having. They were afraid their own skills might not meet the requirements of their new employer. They resented being moved like chess pawns from one place to another with absolutely no control over the situation, and they were extremely emotional over the layoffs of their long time friends. The 15 people who

were not retained had been with the company for many years—some more than 10 years—and many deep friendships and emotional bonds remained. The situation proved to be most traumatic for the people who were *not* laid off.

In hindsight, the HR manager believed it was important to provide appropriate training and coping tools for both transitioned and retained employees. She expressed quite well the lesson she learned (see Lesson #9).

Lesson #9 From the School of Hard Knocks

Don't forget the employees still on board. No matter how good your communications are prior to and during the acquisition event, you can seriously underestimate the value of helping the retained employees cope with the loss of coworkers and changes in company infrastructure and strategic direction.

False Assurance

After hearing the announcement of the company's acquisition by its larger competitor, employees were restless and uneasy. They had been told that the two organizations would consummate the transaction in the following 30 days, and that in the meantime it was "business as usual." Easier said than done. For the employees of the smaller organization, there was much anxiety; they feared that life as they knew it was going to change. They'd heard too many stories of department closures and mass layoffs when other companies were acquired—the kind of stories that frequently made headline news in the local newspaper.

The head of human resources spoke with the new CEO of the combined companies and asked that the latter personally come and talk

with the employees to help put them at ease. He graciously accepted the invitation. As he stood before the anxious group, he shared detailed information about what the new company would become, the history of the acquiring organization, the mission, and the short- and long-term plans of the organization. He saw the tension gradually subside. In its place he saw new energy and excitement. He continued to assure all the employees that they should not be fearful of the change. There was an exciting future, and no one's job was in jeopardy.

The next day, the HR manager learned that a very small group of employees would, in fact, be laid off. Their job responsibilities would be absorbed in the combined company. The good news was that it was less than 20 people. The bad news was that those people, along with all the other acquired employees, had heard the CEO's message clearly stating that no one's job was in jeopardy. To make matters worse, several of the impacted employees had been with the company for 10 to 15 years, and they were well known and well liked in the organization.

Although the HR manager was convinced that the CEO had been personally unaware of the layoffs at the time of his speech, she saw the damage in trust and credibility that was never to be regained. Many employees resigned in the weeks following the layoff—some out of fear, but most because they felt they could not trust management. The mistake could not be undone. The HR manager left the company two years after the acquisition and was still recognizing problems within the acquisition group that were related to early feelings of distrust.

Lesson #10 From the School of Hard Knocks

It is better to give no assurances at all than to give them when there is even a slight possibility that they may not be valid. The long-lasting consequences of false assurances cause irreparable damage to the integrity and trustworthiness of the individual and the company he or she represents.

The Check Might Be in the Mail

The Payroll Department of a large national organization was staffed to handle the normal 4,000 calls per month that came regularly regarding pay and deduction questions from its employees. In the months following a major acquisition, the payroll department was handling two to three times that volume of calls. Response time more than doubled in handling individual problems. Employees were irate; they had paycheck problems and didn't feel that the response from the payroll department was adequate.

To add to the normal paycheck problems, it was discovered that many employees were being paid in the wrong payroll location code. This caused incorrect state withholding taxes and, in many instances, FICA (social security) deductions were set to restart withholdings for the year. Employees who had met the maximum withholding level had full deductions taken from their paychecks. In addition, because of the wrong location code, correct city and county taxes were not withheld.

Local human resource representatives tried to help employees but were dealing with the complexity of a new organizational structure as well as the same overburdened payroll department. Their phone calls for help went to the same messaging system and were held until someone could respond. When there was no response, the employee or the human resource representative often called again, thus causing even further call volume challenges for the payroll department.

Finally the staffing levels in the payroll department were doubled in an effort to correct the massive problems. The process was time-consuming and required great attention to detail. Not only did each location code need to be verified, but corrections were needed for the records where incorrect codes had been in place. Refunds to many employees were necessary, while back deductions were required for others. A special taskforce of payroll subject-matter experts was dedicated to the problem each day until all messages were returned and errors were corrected.

A simple error in transferring the acquired employees onto the

combined organization's payroll system caused countless hours of work and frustration. The newly acquired employees were immediately positioned to distrust the systems and the people of the new combined organization—no matter how good the leadership may have been, and no matter how great the communications may have been during the integration. The plain and simple truth was that many of the new employees had paychecks that were wrong, a payroll department that didn't respond in a timely fashion, and HR representatives who were unable to fix a problem. The new combined organization may have had great opportunities and synergies, but they got off to a bad start.

Lesson #11 From the School of Hard Knocks

No amount of care is too great when attending to the details of the payroll data transfer when employees are acquired by an organization. Frustration and distrust cannot be easily remedied once a large-scale problem exists. Extra staffing may fix the immediate problem, but the loss of integrity may not be recovered.

Faux Pas

A small privately owned company in Tulsa, Oklahoma, was purchased by a California organization. The Tulsa-based firm was family operated, and the environment was family oriented. People worked in a pleasant atmosphere; attire was relaxed, and so was the attitude. Family picnics were frequently held to celebrate company accomplishments. The values of the organization could be traced to the strong religious principles of the owners.

The West Coast company was growing through a rapid series of acquisitions. The work environment was fast-paced and chaotic. Managers had no time for breaks, let alone arranging picnics and family

get-togethers. There was much to do, and never enough time to finish. Before one acquisition was complete, the next one was on the table. Everyone had a dozen plates spinning at any one time; social graces were the least of one's worries.

To help prepare for announcements, the acquiring company sought the services of a public relations firm, but there was little time for preparation. Announcement logistics were developed quickly, as was the message content for both employees and customers. There was no time to investigate the employee culture or style. Integration of the two firms needed to be done, and done quickly.

On the afternoon of the formal announcement to the acquired employees, representatives from the communications firm joined the acquisition team to present the great news. They arrived in attire that was immediately disdained by the local employees; the men in suits and the women in low-cut, short dresses were out of place among the simple cotton T-shirts and blue jeans of the workforce. There was an immediate psychological disconnect, and the acquisition team struggled for acceptance by the group of employees. Instead of supporting the communication efforts, the public relations team was a detriment to developing excitement and synergy between the two organizations. The message content was excellent, but it fell on deaf ears; the employees were quiet and nonresponsive.

The acquiring company continued to struggle for months to gain respect and alliance from the team of Oklahoma employees. When they finally acknowledged the cultural differences between the two organizations, they found that respect was a two-way street. Only then could employees understand and accept the future direction of the combined organization.

Lesson #12 From the School of Hard Knocks

The local culture and fundamental principles of an acquired organization cannot be ignored. When an acquiring company is trying to sell the employees on the synergy of the new combined business, there must be some evidence of cultural respect.

Not-So-Happy Hour

On Friday morning, all employees were told that the bank that employed them had been sold to a large national financial institution and that they must attend a mandatory meeting in a facility across town at 3:00 that afternoon. The people who had been with the bank for a few years had experienced this scenario on earlier occasions. Each acquisition was by a larger corporation, and each acquisition proved to be more painful than the last. This was the fourth change in ownership; and with each change, the human factor was reduced further.

The fact that 80% of the bank's workforce lived in the southern suburbs of the city, near many of the bank's locations, had no bearing on the location of the meeting. Instead, the meeting was held in a site near the airport—convenient for the acquiring corporate executive.

As was done in each prior acquisition, the employees were told what a wonderful employer they now had: Systems would be faster, processes would be smoother, and life would be better. Except, of course, "to enhance customer service," they would be required to attend several mandatory training sessions after bank hours, to learn the new systems. Naturally, T-shirts and pizza would be provided. No jobs would be lost; compensation would be maintained at current levels; and benefits would be comparable—except perhaps for a slight increase in premiums.

After the meeting, there was little enthusiasm and much grumbling. The tellers received their training schedules and calculated what the transition would cost them in terms of lost time with children, additional baby-sitting hours, and increased benefit costs. Employees solemnly drove to their homes, across town, during rush-hour traffic.

Perhaps cynicism would be less prevalent if the acquiring organization focused more on the impact to personal lives—especially for those lowest paid individuals who are on the front lines, directly in touch with the customers. Is the convenience of the highly paid exec-

utive more critical than that of the $8-per-hour tellers? Should day-care expenses be considered instead of pizza and T-shirts? Would a more genuine, straightforward approach, with less rah-rah spin, be more highly regarded by employees?

Certainly, in an industry where acquisitions have become widespread, a more direct and honest approach must be considered. The employees have been there and done that too many times. They know the pitfalls and easily recognize the hype.

Lesson #13 From the School of Hard Knocks

When preparing acquisition announcements, don't forget to look at things from the perspective of the lowest paid people in the organization. Consider how they're being impacted; then be direct and honest. Shoot straight with people, be factual, and prepare them for what to expect—the good, the bad, and the ugly.

The Skull and Crossbones

The corporate office of a once highly successful, fast-growing corporation closed its doors. The $1.3 billion company had run out of cash and had been sold to a smaller business based in a city 3,000 miles away. The company flag that once flew just below the U.S. and state flags had been replaced with a banner of a skull and crossbones. It accurately represented the mood throughout the organization during the final days of operation. The entire support staff as well as the corporate executives were released. Their years of experience, both successes and failures, walked out the door.

The challenges had only begun for those in charge of the acquiring organization. They were ill prepared to take on the operation of this

nationwide business and certainly weren't prepared to manage the financial challenges that resulted from the combination of the two organizations. Although the president had industry knowledge, he had no experience with an operation of this magnitude, and the opposing cultures prompted greater problems than anyone anticipated. The acquired company had developed managers professionally and had spent possibly too much money on training and advancement. The smaller company, on the other hand, had promoted many people from the nonexempt ranks into management positions, and they knew little about assuming leadership roles. Differences in business ethics and integrity caused severe clashes between the two groups, and centralized decision making resulted in lengthy delays. When meetings brought people together from both organizations, seating was selected based on the company with whom one was previously employed. The anticipated synergy was absent.

The company struggled for four years before new leadership and stability prevailed. In retrospect it was determined that the decision to release the executives of the acquired company was a mistake. Although they had participated in some poor financial decisions, greater stability throughout the organization would have been maintained if some of them had been selected to remain with the company. A winner-take-all approach had been used in selecting the combined organization's leadership. A healthier approach would have been to select the best individuals from both companies.

Lesson #14 From the School of Hard Knocks

Select the best people to run the business. Don't allow politics and a win-or-lose attitude to override good decision making.

Too Many Chiefs

How can $80 million in revenue disappear? That is what executives asked two years after the acquisition of a New Jersey-based technology business. The synergy never materialized, and the leadership, sales team, customers, and revenue all gradually dissolved to the point of nonexistence. In the end, the acquisition had destroyed the business. What went wrong?

To begin with, two equal leaders existed in the same market: one from the buying company, and one from the selling company. Both were left in place, and this decision proved to be disastrous. Egos ran amok. Rather that pull together to create a stronger team, the two market managers continued to compete. There was no synergy—only defensiveness and resistance. Customers and employees were often in the middle of the tug-of-war, and neither group cared to play a role in the dysfunctional relationship. The work environment became a win-or-lose atmosphere, and counterproductive behavior developed throughout both organizations. Employees from the acquired company were treated with disdain by their counterparts. There was no sharing of information and no camaraderie.

Of course, people don't want to work in such an atmosphere for long. Soon, the rate of turnover was exceeded only by the rate of customer defections. As sales people resigned to work for other companies, and convinced their customers to join them, the acquiring organization took legal steps to protect its assets. Legal fees mounted while revenues declined.

Hindsight revealed that the market leader from the acquired organization should have been put in charge of the entire market. His counterpart had been threatened by the acquisition of the local competitor, and his defensive reaction impacted his entire team. One leader could have brought the workforce together and focused its energies on winning new business rather than on destroying each other.

Lesson #15 From the School of Hard Knocks

Identify one leader, and communicate clearly the role of that leader.

Summary

The School of Hard Knocks provides valuable lessons that will hopefully help you avoid committing the same mistakes that have been made in prior mergers and acquisitions. In researching these situations, I learned that the steps outlined in this book are absolutely critical, no matter what the industry, and no matter where the transaction occurs. The heart of many problems stems from a lack of honest, straightforward communication, poor leadership selection, or just plain inattention to detail. As you prepare for a merger or acquisition, refer to the lessons learned. Apply them to your situation, and build a foundation for trust and integrity. Your integration will be successful through relentless preparation, communication, and respect for the individuals being impacted.

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Hallelujah! We Got It Right

Leaders who are trusted by the employees can set the tone—good or bad. When they embrace change, so will their employees. Nothing can prepare employees for change better than an open, honest exchange of communication.

Chapter Goal

Not all lessons are learned in the School of Hard Knocks. Sometimes we plan well, we execute right, and the results are excellent. Certainly the goal of this book is to help the reader enjoy many positive experiences throughout the course of workforce integration. This chapter provides stories of things done right. In it, you will read experiences that illustrate valuable insights on successful integration—not from mistakes, but by anticipating and avoiding problems.

Those people who shared their experiences of things done right are, in some instances, the same who shared hard knock stories. Some things were executed perfectly; others were fumbled. In both scenarios, the objective is to help you to experience a lot more hallelujahs than hard knocks.

Truth or Consequences

The president of a national privately held business was repeatedly asked about the rumors of selling the company to various large public companies. Because of SEC regulations, he couldn't reveal details about ongoing negotiations. However, he felt he would lose the trust of his employees if he flatly denied the rumors. Over a period of several months offers were considered from several sources, but negotiations would break down for various reasons. More than once, when asked point-blank by an employee about the rumors, the president responded, "We have had and continue to have discussions about selling the company. If the right opportunity presented itself, we would certainly entertain it, but it would need to be the right move for the shareholders and employees."

When the company was eventually sold, the employees had to face organizational change on a grand scale; nevertheless they felt they could believe what their president told them. He was able to maintain trust without overstepping his boundaries. Employees knew he could be counted on to provide honest information as quickly as it became available. They didn't always like what they heard, but they knew it was reliable information.

Contrast this with an acquisition where the CEO totally dismissed such questions with, "Absolutely not. We have no intention of selling this company." Two months later when the company was sold, employees were in a total state of shock. In addition to dealing with the organizational upheaval, they felt they had been deceived; they didn't know to whom they could turn for honest answers. The psychological acceptance of the change became a long-term challenge for the acquiring organization and for the leaders who dealt with employees on a daily basis. People were angry because they had been deceived and then surprised. It certainly may not always be appropriate to elaborate on the details, but it is advisable to say as much as possible as early as permissible.

Insight #1 from Hallelujah! We Got It Right

Be honest. Say as much as permissible. One lie can do irreparable damage.

Come Together

The divestiture of a $2 billion corporate division was soon to be announced. The managers of the regional markets were provided full disclosure of the pending transaction. Each manager was prepared to facilitate announcement meetings in their respective markets to notify their employees of the sale of the division. Local market managers of the acquired organization led announcement meetings for their employees. In one particular market, the manager used the materials that explained the positive synergies of the two organizations but went on to discuss openly what she felt were the outcomes that would result from the transaction. She asked for questions and concerns from the audience. Her overall message was that she believed the divestiture was good for her employees and her customers, and she explained why.

She had invited an HR representative to attend the meeting, and one hour into the meeting she asked that her new area vice president (AVP) join the meeting. The atmosphere was open and relaxed. She encouraged her employees to ask anything. If the answers weren't known, they would be obtained and reported at a later time. The AVP put people at ease even further. He was able to explain how certain processes worked within the acquiring company and even made fun of a couple of processes that needed improvement to be as good as the selling company. Concerns about benefits were put to rest when the HR representative shared a brief comparison of the two organizations.

At the end of the two-hour session, the AVP (who had also made the announcement to the employees on the acquiring side) asked if the newly acquired employees cared to go a restaurant to meet their counterparts. All members of the team were welcome. It was unanimous. The entire group was ready to join their new allies.

Though people were initially tentative, introductions were made, and conversations gradually warmed. People from both sides of the organization heard their managers sharing ideas. Others joined in, and soon they shared war stories, frustrations, and laughter. By the end of the evening, people from both sides of the new organization were beginning to feel a sense of enthusiasm about the new team. The formal structure was yet to be built, but the informal relationships had already begun to develop.

Insight #2 from Hallelujah! We Got It Right

Leaders who are trusted by the employees can set the tone—good or bad. When they embrace change, so will their employees. Nothing can prepare employees for change better than an open, honest exchange of communication.

Attention to Details

In preparation for the announcement of a national outsourcing engagement, hundreds of details were listed and checked off one by one. The transaction involved the transition of over 200 employees and was much like an acquisition as far as employees were concerned. The client required total confidentiality prior to the announcement; and to maintain positive customer relations, the announcement and

integration had to be done flawlessly. Employees located in five major cities would need to hear the news at precisely the same time. The client did not want employees to hear about such an organizational change via an unofficial telephone call from someone in a different time zone.

Presentation materials were created, edited, and refined. And then refined some more. Welcome packages with offer letters and benefits and career information were created for every outsourced employee. Five teams of facilitators were selected and prepared for Announcement Day. Each team included a senior manager and line operations manager from the client company, as well as a senior manager and HR representative from the service provider. The line manager resided at each site, and the HR representative would remain at the site for at least three days following the announcement to respond to employee questions and help individuals enroll in benefits with their new employer.

Numerous conference calls were held in the days prior to announcement to rehearse the presentation and process. Q&A information sheets were prepared, and countless questions were addressed so that all answers were consistent from one location to another.

When Announcement Day finally arrived, the affected employees learned in unison of the change, as planned. Information was provided in formal presentations; copies of the same information were provided; and informal discussions followed each presentation. Questions of all types were asked, and answers were given—strategic, tactical, operational, and technical. In addition, human resource presentations were made, and again employees were encouraged to ask questions. If answers weren't known, there would be follow-up to ensure that each employee had a prompt response. Employees still had to deal with the psychological change, and the shock for many long-term employees was upsetting. However, because of the hours of planning and the anticipation of the employees' many concerns and questions, the transition was highly suc-cessful. Two years later, with few exceptions, the group was still intact.

Insight #3 from Hallelujah! We Got It Right

Communication details must be planned carefully. What is seen, heard, and read on Announcement Day and the following days will make lasting impressions on the acquired workforce. To be fully prepared, you must anticipate the toughest questions and the stuff that might go wrong.

The Anomaly Remains

When a small information technology company in Detroit was acquired by a national organization, the Michigan owner insisted that he be allowed to retain his team-oriented culture. Not only would he be retained as the executive over that market, but his employees would also be allowed certain exceptions during the integration process. They were all transitioned into the payroll and benefits system of the acquiring company, and certainly the operational and inventory processes were fully integrated. However, exceptions were allowed that had been unprecedented in other acquisitions.

The Detroit employees had been selected and trained on team-based principles. Their performance was evaluated and incentive-based on team accomplishments rather than on individual goals. The employees initiated performance appraisals and career development plans. Sales compensation plans did not highly reward any single individual; rather, bonuses were shared when the team was successful. The market manager insisted that the culture he built would be successful, and in fact warned that employees would likely leave if there were an immediate move to an individual-contributor model.

The Michigan organization lacked hierarchical layers of management, and the leader had extremely strong links with his team. The ac-

quiring company recognized the damage that would be done if the small company was bought and the culture was changed. They therefore honored the requests of the Detroit leader, at least on a "we'll see how well this works" basis.

After five years of success and record-breaking low turnover, the Detroit organization became a model for other market managers. The operating executive continues to uphold his initial principles and has done so successfully. He and his team members have frequently been asked to participate in taskforces that seek and document best practices and process improvement. The branch has been able to maintain much of its original culture, and several of the successful ideas and practices have been implemented in the larger company.

Insight #4 from Hallelujah! We Got It Right

There may be times when total cultural integration is not necessary, and, in fact, may be undesirable. Investigate the alternatives; consider what can be learned from business units that don't fit the mold.

Not Another Meeting?

After the merger of two multibillion dollar corporations, the manager of a credit department was frustrated and concerned about deadlines and time commitments when she was told that her new director was holding an all-day staff meeting. One more meeting was the last thing she needed; taking eight full hours was the least helpful action her boss could take. After two months into the new relationship with the company that had acquired her organization, there were too many priorities and not enough hours in a day.

Her director of one month was quickly learning the ropes and certainly had good intentions, but couldn't a staff meeting be conducted in one or two hours? The new director, however, refused to budge on this issue. The meeting was required, and failure to attend because of other job priorities was not an option. The meeting was the number one priority! The agenda was already established.

As the meeting began and throughout the day, the new director kept a chart with definitions of terminology and acronyms as they came up in conversation. This helped communications immediately because the employees from both companies were frequently speaking different languages. The director asked all members of the team to provide information about themselves: background, roles and responsibilities, values, likes and dislikes. A high level of respect was maintained throughout the meeting; all individuals were encouraged to share their concerns and questions, no matter how big or small. The director then gave some history on practices and procedures of each company, comparing their differences and similarities. She then shared her vision of the marketing plan for the upcoming year. Throughout the day, she checked with the individuals of the team to make sure that they agreed with direction and process and to understand and discuss why not. This gave all participants the opportunity to express their thoughts, ideas, and concerns. The team began to build a common approach and common objectives. At the same time, the areas of expertise from each individual began to emerge so that help could be sought from one another. Defenses began to melt.

The woman who had initially dreaded the meeting because of time constraints left feeling it was the most productive and worthwhile day she had had in months. She now knew which issues were critical and which were not. She had been trying to keep up with the direction of two different organizations, instead of the new combined vision. She could now sort through the many priorities and determine what truly should take precedence; she understood her own role better, as well as the roles of each individual team member. The staff meeting immediately and positively impacted both her productivity and frustration levels.

Insight #5 from Hallelujah! We Got It Right

Time spent in bringing a new team together and planning the new future is time well spent. Sharing the vision of where you're going, and then determining together how to get there, is one of the most worthwhile actions a manager can take.

Grieving is OK

When a local realty company was acquired by a larger competitor, employees were at a loss in dealing with the many emotions they faced. Their employer had been conducting business in the community for 25 years, and many agents had been with the company for ten years and more. The founder had been respected in the community, and there was a strong sense of pride in the organization. There had been a healthy competition between the two organizations, yet there was a general feeling of respect for the acquiring company. Both organizations had demonstrated strong integrity in prior dealings.

The management team of the smaller company was notified one day before the general announcement that the company was to be acquired. On Announcement Day all agents and employees were invited to an off-site location where the president of the acquiring company shared the news alongside the retiring owner. He spoke of the great organization that was being acquired and told people that they should be proud of their growth and many accomplishments through the prior years. The cultures were similar, and the new combined organization would have unlimited potential. Additionally, the acquiring organization had taken actions to ensure expedient licensing for all agents, removing the fears of business interruptions during the transition. After the meeting, there was a cocktail party to which managers and agents from the acquiring company were also invited. The people

newly acquired were welcomed, and participants from both organizations celebrated together.

Geographic coverage of the combined organizations was such that all offices—with the exception of one—would be critical in the future organization. That office was located only blocks from one of the strongest locations of the acquiring company. The manager of that office knew their future couldn't be long. She asked for a meeting with the appropriate executives from the acquiring organization and asked if they intended to close the office. She was told that there were no immediate plans to close the office. It would be kept intact for the short term. She drilled deeper, wanting to know if it would be closed in six months, nine, twelve? What was the plan? The acquiring executives admitted they would have to close the office, but wanted to wait for a few months; they just didn't know when.

The manager shared her concerns, expressing her fears of how the people would react in dealing with two major transitions within a few months. She knew productivity, sales, and morale would be impacted negatively as agents fought over the same geographic territories. She suggested that a plan be finalized to close the office, set the date, and communicate to the agents immediately. She promised she would deal with the transition and would ensure a strong handoff of the operation. The acquiring executives listened and agreed.

Of the 38 people in the office, all but six individuals were retained. The people were asked from which office they would want to work, allowing individuals to maintain some control over their future. Support and assistance were provided for seeking future positions for those not retained.

In the days that followed the second announcement, the manager saw that her people were highly emotional—swinging from anger to sadness, and dealing with each other accordingly. Slight disagreements turned into major arguments that often resulted in tempers and tears. She decided that she needed to do something to help her team deal with the situation, so she held a wake. Employees were encouraged to share their thoughts—good and bad. People gave eulogies and were allowed to bid farewell to their old employer, and individuals paid tribute to each other and to the office team. There were some

tears, some smiles, and some laughter, and people had an opportunity to deal with the emotional side of the transition. Afterward, the team was able to move forward with their new beginnings. They stopped taking their frustrations out on each other and understood better what each person was experiencing.

A wake may not be the appropriate action in every situation, but in this particular one, it helped people deal with their feelings of loss. Throughout the transition, people were treated with respect—respect for their accomplishments, and respect for their emotions and fears.

Insight #6 from Hallelujah! We Got It Right

People frequently experience high emotion over the loss of their original employer. There are times when it is appropriate to facilitate the grieving process the same as with the loss of a family member or loved one. Help employees bring closure to a chapter that is ending.

Cover the Basics: Pay and Benefits

A telephone support operation with over 300 nonexempt employees had faced continual payroll problems prior to their acquisition by a larger competitor. Managers and human resource representatives dreaded payday because of the numerous paycheck errors that occurred regularly. The payroll operation was manual, and all changes to pay records were handled through a paper-intensive process that only seemed to contribute to the errors. Timesheets were handwritten and faxed, and documents were frequently lost somewhere in the process between supervisors, human resources, and payroll. Finger pointing had become an expected reaction each time errors were discovered.

Because of the pending divestiture, however, the company chose not to invest in the payroll operation.

On the benefits side of the equation, transitioning employees were extremely happy with their local HMO. About 95% of the employees used the local provider because its service was outstanding. The selling company found the costs to be competitive, and administration was easy.

Prior to the acquisition, the HR departments of both organizations recognized how important it was to employees to keep their existing HMO. In prior satisfaction surveys, the one thing that employees had continuously rated high was their health care provider. The purchasing company decided that the burden to add one carrier for the satisfaction of over 300 employees was worth the effort and the price.

When the acquisition took place, the acquiring company presented the local HMO as a benefit option and introduced online processing for all pay, address, and informational changes, as well as an automated timekeeping process. The new process allowed employees to record their work hours and supervisors to review the records online and then to forward them to human resources and the payroll system for calculation. Human errors and lost paperwork became a thing of the past. The error rate went from 15 to 20 errors per pay period to less than one per month.

The employees felt that their concerns were a priority for the acquiring organization, and whether the new culture would continue to support that belief would remain to be seen. For an immediate first impression, however, employees were pleasantly surprised. They felt that the new organization regarded its people as a truly valuable resource because pay and benefit issues were satisfactorily addressed.

Insight #7 from Hallelujah! We Got It Right

Get the basics right. People's paychecks and benefits count for satisfaction at the most basic level. When they are paid correctly and on time, and when they are happy with their health care provider, they are better able to focus on the business needs.

On Second Thought . . .

When a software development firm acquired a smaller West Coast e-commerce operation with all its employees, the vice president of human resources compared the benefits programs between the two organizations and found some concerns. She discussed her concerns with the chief operation officer (COO) and specifically brought to his attention variances in methods of vacation accrual. The acquiring company allotted vacation hours to employees at the first of each calendar year; there was no accrual throughout the remainder of the year. The company to be acquired allowed employees to accrue vacation on a monthly basis.

The COO noted that the purchase agreement between the two organizations called for the acquired company to pay employees for all unused accrued vacations at the time of acquisition. Employees would come to their new employer with no earned vacation. Because the transaction was taking place in the early spring, individuals would not be eligible for vacation until after the following January 1.

The vice president of human resources expressed strong concern that this would be a problem—employees would want to be able to take vacation. She recommended that because employees would have bridged service, they should earn a prorated amount of vacation for the upcoming year, based on prior service tenure. The COO believed it would be better for the business to leave the process as is—there was a long learning curve expected before employees would be fully productive under the new systems and procedures. He therefore felt it was best not to have to deal with vacations during the first year after acquisition.

On Announcement Day, employee meetings were held, and people were told of the great opportunities with the new combined organization. There was much good news to share: a larger company with more customers, more career opportunities, more training, and more geographic sites. But, of course, the question arose, "How much vacation will we have this year, and when are we eligible to take it?"

The COO explained that prior accruals were paid out, and no one would be eligible for paid time off until January 1 of the following year. Employees were appalled and let him know. He was barraged with employee concerns about canceling family vacations, airline and hotel reservations, planned events, and so on. He immediately understood the prior concerns of the vice president of human resources. Without further hesitation he backed down and said he would look into the situation and see what could be done for the employees.

Immediately after the meeting he spoke with the vice president of human resources and asked her to project the costs of her prorated vacation accrual plan. Within hours he announced to employees that the problem had been resolved: They would be eligible for prorated levels of vacation time during their first year. The employees were satisfied with the response, and they felt that their new employer was willing to listen to their concerns and take immediate action.

Insight #8 from Hallelujah! We Got It Right

Getting it right may mean reconsidering decisions after more data is available. The business rationale must always be considered, but so must the employee reaction. Listen to the people's feedback. Even when initial decisions have been made, it's still possible to modify decisions to find a satisfactory solution. Be willing to reconsider the costs from all angles.

Happy Ending

After hearing that their bank was being merged with another, the employees braced themselves for the worst. They had heard about the negative impacts of mergers and acquisitions from coworkers who had previous experience. No doubt, this acquisition would also be painful.

At least for the employees in the special assets department, however, this transaction was different. They found that their department in the new company was actually better run, that processes were more clearly defined, and that the management function was centralized and staffed with skilled and experienced people. In fact, their new remote manager was extremely knowledgeable and thoroughly understood each function of the department. They soon learned that he was a valuable resource; they could go to him with complex problems, and he consistently provided timely and pragmatic answers. They could call him with requests to implement a solution, and he understood and approved their requests without multiple levels of red tape and signatures. He backed and supported their actions, even when their decisions were less than perfect. The employees not only felt empowered, but also encouraged to do their jobs, as opposed to writing reports and covering their tracks.

Of course, things weren't perfect. As a result of the centralized management function, some individuals lost their management positions. There was plenty of upheaval and change. Employees had to learn new systems and policies, but the manager helped his new team adjust.

And, there was more good news. Employees learned that their stock had become fully vested as a result of the acquisition. Those people who were only 20% and 30% vested prior to the transaction were now 100% vested. Their privately held stock was transferred to stock in the financially successful, publicly traded company. There truly was a positive impact for the employee-owners! Not only were they empowered in their jobs, but their net worth had actually increased. They experienced a renewed level of commitment. The new combined organization was good for the employees after all.

Insight #9 from Hallelujah! We Got It Right

Knowledgeable managers who thoroughly understand the work function and then enable their employees to do the job are always heroes, even in times of stress and transition. Nothing beats superior management capabilities.

The Underdog Tries Harder

After the intellectual property and technology of a New Jersey company was purchased, the business was to be dissolved. Employees were not included in the acquisition. Arrangements were made for approximately 450 employees to participate in job interviews. Two of the interviewing companies were large and nationally known leaders in their industry; the third was a small and relatively unknown company.

In an effort to capture the attention of the employee candidates, the small company began a campaign that surpassed all efforts by the industry leaders. Although the two industry leaders could rest on their reputations and deep pockets, the managers of the small company recognized that they would have to work hard to win over any of the employees, let alone the best employees.

The efforts began with presentations: Executives shared the vision of the company and its plans for the future. Both the successes and challenges of the company were presented, and people were shown how their work would contribute to the overall business. They were told they were needed! Separate pay and benefits meetings were held, and over two hours were dedicated to answering questions. Service would be bridged, and stock would be provided to employees who accepted positions. The company added benefits that it had not previously had in order to provide coverage comparable to what employees had previously experienced. Tough questions were dealt with quickly and honestly. When answers weren't known, they were found out immediately and reported back to the employees within hours. During one-on-one interviews, time and attention were given to each individual. The greatest impact, however, came because the small company did its homework on employee loyalties. Management learned that, through a series of acquisitions, there were employees who had been together for 10, 20, and 30 years. Long-term friendships had developed, and people wanted to maintain some of their prior camaraderie. If the right managers could be convinced to join the small company, critical teams of employees would follow them.

While the smaller business was winning over the key managers and their key players, the larger companies spent little time with the group. When tough questions were asked, they got back to employees slowly, if at all. After all, they were nationally known, and their reputations preceded them.

As candidates began to make their decisions, it was evident that the little company was winning the lion's share of the employees. All their key positions were filled, and they were filled with high quality individuals. The transition efforts were considered a strategic and tactical success.

Insight #10 from Hallelujah! We Got It Right

Size and reputation are impressive, but employees are more impressed with honesty and follow-through. Listen to their needs; learn how you can best meet them. They will respond accordingly.

Focus on the Business

Employee apprehension was high when a Europe-based conglomerate announced that it was to acquire a national insurance carrier in the United States. Local employees expressed concern over major issues such as job security, pay, and benefits. But they were also extremely concerned about smaller issues: "Will work hours be changed? Will we lose casual attire?" The HR department alerted the acquiring company to the issues that would be raised in the upcoming all-employee meetings. When the executives from the acquiring organization conducted their meetings, they were well prepared for the onslaught of questions that came from concerned employees.

Employees were given the reassurance they needed to hear. The acquiring company announced that it would not alter local work

policies; work hours and attire would remain the same. Pay and benefits policies would not be changed for 18 months. Any changes that would occur would be announced six months before implementation.

In one office where consolidation would create layoffs, people were told clearly what would happen and when. Generous severance packages were provided along with outplacement services. No one would have less than six months of severance, and those with several years of service would receive additional severance. Key people were provided a retention incentive to stay through the dates needed.

In retained locations, productivity appeared unaffected by the acquisition. By alleviating the major job security concerns as well as the attire and work policy issues, management was able to focus employees on the critical business challenges. Because new legislation had been adopted that would require insurance companies to hold greater reserves to pay off term life insurance, rates would be increasing at the beginning of the following year. Management asked all employees to assist customers by selling and processing more insurance prior to year-end.

In the midst of normal acquisition trauma, a key Midwest operation was able to report the best results in its history. Extremely challenging goals were set, and communications were frequent. Management kept people informed of the progress of the acquisition as well as of their individual progress toward objectives. Not only were the stretch goals achieved, but people also felt good about their own accomplishments and about the new company. Because of the acquiring company's quick communications response and strong business focus, the normal fears of acquisition dissipated quickly.

Insight #11 from Hallelujah! We Got It Right

Alleviate the fears and focus on goals. Address transition concerns quickly; answer questions clearly and honestly to minimize surprises. Then establish short-term achievable targets and communicate, communicate, communicate.

Tend to the Tactics

The HR and field operations departments of a large high-tech corporation had become well versed in acquisition communications. Having been through the process on numerous occasions, they knew the necessary tactical steps. Because of cultural differences with each acquisition target, the big-picture strategies were sometimes altered, but the nuts and bolts of each transition were basically the same. The acquisition of 1,000 employees would be handled similarly to the prior smaller acquisitions.

Human resources prepared welcome packages that were mailed to employee's homes for delivery on the Announcement Day. In each package was a copy of the welcome aboard presentation, an annual report, answers to frequently asked questions, information about payroll and timesheet processing, travel expense procedures, and work policies—and, of course, benefits information. Employees could enroll in all benefits through a voice-automated system, and they could ask questions through an employee hotline.

The field operations group, equally prepared, called a meeting to bring together over 250 sales professionals within the first week of announcement. This three-day kick-off meeting provided a tour of their new corporate office, several hours of face-time with senior executives who explained the new business strategy and vision, Q&A sessions, and product and service sales training, as well as new laptops to support the sales team in their new company.

Acquired sales employees were genuinely impressed with the welcome-aboard efforts. The laptops were sorely needed tools that had often taken weeks and even months to receive in the acquired organization. The sales representatives were made to feel immediately appreciated, and the kick-off meeting proved to be an excellent combination of work and celebration. Members of the sales force left the meeting energized and motivated to represent their new employer proudly.

Insight #12 from Hallelujah! We Got It Right

Take care of tactical details. Respond to basic employee needs and provide the tools needed for business success: technology, training, and direction.

Status Quo

When a small computer reseller in Albany, New York, was purchased by a larger national company, the owner was left in charge of his operation with relatively little change for 18 months. He was offered a three-year buyout for his company, was provided performance metrics to achieve, and was promised that he would be in control of all transition steps. As changes took place that affected systems, processes, and people, he would be the integral decision maker.

The owner, along with key executives from the acquiring organization, conducted the announcement meetings. Employees were told that their entire business was valued and that it was viewed as a strong and profitable operation. There would be no attempt to destroy the positive momentum of the Albany operation; and in fact, the executives promised to preserve the success built by the acquired employees. There would be no layoffs.

Employees were moved to new payroll systems and benefits immediately. The larger company offered greater flexibility, more benefit options, and lower employee costs. The owner knew that all employees would welcome these changes. Salaries and compensation plans remained unchanged for several months. Operational changes in billing and administration were gradually implemented, but strong communications consistently preceded any modifications.

By the time salary and compensation changes were implemented, employees had been given plenty of advance notice and had become acclimated to the driving values of the parent organization.

The three-year buyout with performance accountabilities proved to be a positive way to structure the deal. Both selling and buying parties knew what was required for success, and both delivered as they had originally agreed.

Because the owner had been in charge of deciding when changes would occur, he displayed full support of the parent company to his employees. He helped nurture the idea that they were truly a different organization from their prior business, and he consistently reinforced the vision and direction of the parent company.

Insight #13 from Hallelujah! We Got It Right

When operational or geographic conditions permit, allow the acquired organization to maintain autonomy. Don't create islands—the acquiree must become part of the new company—but don't strip away individuality. Specific performance accountabilities can support the gradual integration.

Quality: The Common Denominator

Medical service employees and their leaders faced a major challenge when two health care systems were merged, bringing together over 7,000 employees. While both were governed through faith-based principles, one had followed the Episcopalian philosophies while the other followed Seven-Day Adventist philosophies. Both operated in different sections of the Kansas City community, so competitive lines were not drawn. However, the prospect of facing merger disruptions on top of an already challenging workload left the leadership with serious concerns about how to accomplish the goals of the merger. Major financial savings were expected because cost centers were to be combined. Employees already felt the normal pressures and stress

associated with their work—dealing with hospital emergencies, critical accidents, terminal illnesses.

To provide common goals and a common language, the leadership decided to instill quality principles, process improvement training, and apply for state and national quality awards. Leadership shared the vision and the goals with workers at all levels of the organization. Quality teams were developed, and frequent ongoing training was provided. Progress as well as problems were communicated regularly, and the people consistently stepped up to each new challenge. After two years, the new organization won quality awards in both Kansas and Missouri, as well as national recognition. Not only were people brought together with a common goal, but certainly the marketability of the organization was enhanced also by the recognition gained through earning such distinctive awards. Furthermore, employee satisfaction was elevated to new levels during a time when merger challenges could have derailed employee morale.

The merger was considered a success from both the financial perspective as well as the HR perspective. Millions of dollars were saved over the previous cost run rates of the two separate organizations, and employee turnover was half that of the industry averages in the community. All this was accomplished while the combined organization made major headway in differentiating itself from competitors. The quality initiatives have continued to impact service levels and value to customers positively.

Insight #14 from Hallelujah! We Got It Right

Set challenging, attainable goals for the new combined organization—goals that will unite the people through a common call for help. Communicate frequently and then recognize and reward all accomplishments that help achieve the overall goals.

Summary

The Hallelujah! stories reinforce many of the initial elements from the ten-step integration process. Get the basics of pay and benefits right. Anticipate questions and problems. Follow-through on all promises. Set short-term goals, communicate them clearly, and then hold people accountable for them. Keep focus on the business, while respecting people's needs to deal with the change—to grieve the losses and traditions of the past.

As with the School of Hard Knocks, these success stories represent real-life anecdotal situations that should help you better understand how to avoid the common pitfalls and prepare for flawless execution. The principle to remember is to maintain the human element. Keep in mind the people who are impacted the most but who may have the least ability to influence the actions taken. They are the ones who have been moved without choice from one company to another. They do, however, have the ultimate decision-making power. The choice is theirs to stay with or to leave the new combined organization.

Conclusion

While reading the ten M&A process steps and numerous real-life situations from organizational transactions, you have probably already begun the workforce integration process. This book was intended to provide a pragmatic, understandable approach to bring together the employees of two or more combined organizations.

The success or failure of most organizational transactions relies on the success or failure of the workforce integration. Certainly, there are situations where a product or process can be acquired without concern for the people side of the equation. More and more often, however, the people are critical. Whether they hold historical knowledge, technical expertise, or customer loyalty, it is the people of the organization that represent the true value. If the integration is fumbled and people choose to leave, there may be little left to show for the price of the financial transaction that took place. If, on the other hand, the integration is executed properly and the people choose to build the synergy and support the vision and direction of the new combined company, the financial investment can emerge as an impressive success.

The rate of failures is high, and many executives have underestimated the critical importance of the workforce integration. My hope is that you have learned the basic tactical initiatives that must be followed. Every situation requires customization, but the fundamental requirements are the same. As I have stated repeatedly throughout this book and throughout the steps of workforce integration, communication—honest and straightforward—is key, with respect for the individual as the guiding principle.

As with all M&A projects, you will have challenges, but it is my hope that you will have immense success and that the experiences and insights shared in this book will have contributed in some small way.

Appendix A

Sample Project Plans

Plan 1: Field Leadership Selection

Steps	Tasks	Data or Tools Needed	Who Owns	By Date	Status
Review vision and business strategy.	a. Obtain executive vision and strategy from CEO.	Vision and business strategy of new combined organization	Morgan	3/27	Done 3/25
	b. Review vision, strategy, and competencies required.		Morgan	3/27	Done 3/25
Review new organizational structure.	a. Obtain approved organizational structure from finance/Executive Vice President (EVP) over field.	Organization Chart of leadership positions to support new combined organization.	Morgan	3/27	Done 3/25
Complete job profiles for field leadership positions.	a. Consider skills, knowledge, and experience required for each position's success.	Knowledge of position scope and capabilities providing successful performance in past. Assistance from Executive Vice President (EVP) and field Senior Vice Presidents (SVP).	Hollister	3/27	Done 3/26
	b. Utilizing Leadership Profile, Document, responsibilities of position.		Hollister	3/27	Done 3/26
	c. Utilizing Leadership Profile, Determine, required qualities		Hollister	3/27	Done 3/26

(*continued*)

Steps	Tasks	Data or Tools Needed	Who Owns	By Date	Status
Assess field candidates.	Complete Leadership Assessment, while working through the tasks below:		Morgan	3/30	Done 3/31
	a. At each job level, compare number of positions available with number of incumbents in both sending and receiving organizations.	1) Organization chart of budgeted positions. 2) Names, titles and locations of all field executive candidates.	Morgan	3/30	Done 3/28
	b. Document years in service and years in position	Service dates and job dates of each named above. (Ideally, access internal resume from HRIS on each executive candidate.)	Hollister	3/30	Done 3/28
	c. Document competency fit with new organization and position.	From direct manager.	Hollister	3/30	Done 3/28
	d. Document current performance trends.	Market Revenue/Gross Profit Dollars (GP$)/Operating Contribution $ (OC) growth over last year	Morgan	3/30	Done 3/29
	e. Document past performance reviews.	Past performance ratings recorded for annual increases on all executive candidates.	Hollister	3/30	Done 3/28
	f. Analyze leadership qualities.	Participants in assessment exercise will need to have first-hand knowledge of field executive skills.	Morgan	3/30	Done 3/31
	g. Document whether candidate is within appropriate compensation range, meets travel and relocation requirements.	Salary of incumbent and salary range of position.	Morgan	3/30	Done 3/31
Interview candidates, if possible.	a. Arrange meeting or private phone call with each candidate and field Executive Vice President.	Phone numbers for all candidates.	Morgan	4/3	Done 4/1

Steps	Tasks	Data or Tools Needed	Who Owns	By Date	Status
	b. Interview and discuss career achievements/aspirations with candidates.	Interview guides	Ban	4/3	Done 4/4
	c. Discuss position opportunity with candidates.		Ban	4/3	Done 4/4
	d. Assess travel and relocation preference.		Ban	4/3	Done 4/4
Fill position with best candidate.	a. Identify candidates to fill positions and contingency back-ups.		Ban	4/5	Done 4/5
	b. Determine who must relocation.	Relocation Policy	Ban	4/5	Done 4/5
	c. Determine compensation package.	Compensation Plans	Ban	4/5	Done 4/5
	d. Review with HR.	Offer request form	Ban	4/5	Done 4/5
	e. Prepare offer request.		Kessinger	4/5	Done 4/6
	f. Discuss offer with candidates.		Ban	4/5	Done 4/7
	g. Notify HR of final decision by candidate.		Ban	4/5	Done 4/7
Extend options to runner-up candidates.	a. Determine opportunities available: lesser position, RIF, relocation.		Hollister	4/7	Done 4/7
	b. Review with HR.		Hollister	4/7	Done 4/7
	c. Prepare offer request or obtain RIF/relocation package.		Kessinger	4/7	Done 4/8
	d. Discuss with candidate.		Ban	4/7	Done 4/8
	e. Notify HR of final outcome.		Ban	4/7	Done 4/8

(continued)

Plan 2: Reduction in Force

Step	Tasks	Who Owns	Target Date	Status
Prepare RIF list for processing.	a. Provide all names and finalize for RIF list.	Cerwick	4/3	Done 4/4
		Gray	4/3	Done 4/5
		Hollister	4/7	Done 4/7
		Booker	4/7	Done 4/9
		Matthews	4/7	Done 4/6
		Miller	4/7	Done 4/7
	b. Analyze RIF list for adverse impact.	Kerber	4/9	Done 4/10
Prepare RIF packages.	Create RIF package templates:			
	a. Instructions for (Line of Business) Manager/HR conducting discussions	Kerber	4/9	Done 4/8
	b. Separation notification, for nonWARN locations	Kerber	4/9	Done 4/8
	c. Separation with release agreement for Directors	Kerber	4/9	Done 4/8
	d. Separation with release for directors 40 and over	Kerber	4/9	Done 4/8
	e. WARN letter without stay bonus for immediate RIFs	Christensen	4/9	Done 4/7
	f. WARN letter without stay bonus for 60-day RIFs	Christensen	4/9	Done 4/7
	g. WARN letter with stay bonus	Christensen	4/9	Done 4/7
	h. Updated exit checklist	Christensen	4/9	Done 4/8
	I. Updated contact list	Christensen	4/9	Done 4/8
	j. Updated Q&A	Kerber	4/14	Done 4/13
	k. Notice of outplacement contact for directors	Christensen	4/9	Done 4/9

Step	Tasks	Who Owns	Target Date	Status
Prepare individual RIF packages.	a. Create individual letters.	Grant	4/18	Done 4/18
	b. Add exit checklist if immediate RIF.	Grant	4/18	Done 4/18
Assign RIF/WARN coverage.	a. Assign RIF/WARN teams.	Black	4/17	Done 4/17
	b. Notify managers/HR of assignments (all must be disclosed).	Black	4/18	Done 4/18
	c. Distribute RIF/WARN packages to each manager/HR	Black	4/20	Done 4/20
Notify appropriate parties of RIFs.	Provide immediate RIF list and transfer list to the following:			
	a. Manager for Systems	Strange	4/18	Done 4/18
	b. Manager for business credit card and travel	Strange	4/18	Done 4/18
	c. Manager for Security	Strange	4/18	Done 4/18
	d. Manager for long distance phone cards	Strange	4/18	Done 4/18
	e. Benefits manager for benefit carrier notifications	Strange	4/18	Done 4/18
Process personnel change notices.	a. Prepare paid Leave of Absence (LOA)/ Personnel Change Notice (PCN) for WARN immediate RIFs	Becker	4/22	Done 4/22
	b. Process term Personnel Change Notices for immediate RIFs non-WARN(2+1 sev).	Becker	4/22	Done 4/22
Notify state officials of WARN.	a. Send WARN letters to state/local departments as required	Grant	4/21	Done 4/21
Hold RIF notification meetings.	a. Deliver RIF/WARN packages and collect appropriate items. See Exit Checklist.	See RIF/WARN assignment	4/22	Done 4/22
	b. Mail WARN letters.	Grant	4/23	Done 4/23
For people on WARN notice, set up process to find other jobs within sending or receiving corporation if possible.	a. Establish Master follow-up file.	Wein	4/23	Done 4/25

(continued)

Step	Tasks	Who Owns	Target Date	Status
	b. Communicate to all managers that they are to notify Carr if job opportunities are found for employees to be RIFed.	Wein	4/22	Done 4/25
	c. Provide RIF with stay date list to Carr	Wein	4/21	Done 4/22
Follow-up on signed releases.	a. Collect signed release agreements	Becker	5/22	Done 5/1
	b. Process revised Personnel Change Notices with enhanced severance for those who signed releases	Becker	5/22	Done 5/1
Follow-up on 60 and 90 day RIFs.	a. Process term Personnel Change Notices with severance for WARN RIFs 60 days.	Becker	6/10	Done 6/10
	b. Process term Personnel Change Notices with severance for prior WARN-paid Leave of Absence individuals.	Becker	6/10	Done 6/10
	c. As stay dates approach, prepare separation notification letter and RIF package for each individual	Strange	7/10	Done 7/15
	d. Process term Personnel Change Notices for those having stay bonuses.	Becker	7/22	Done 7/22
	e. Process stay bonuses.	Becker	7/23	Done 7/22

Appendix B

Sample Q&A

Benefits Questions

Q. Will my years of service be recognized in the new organization?

A. Yes. Your service date will be transferred; and benefits impacted by that date, such as vacation accrual and 401(k) match, will be calculated accordingly.

Q. Will I have health/dental/vision coverage? When are they each effective?

A. Yes. All three are available through the acquiring company. There will be no lapse in coverage. The new plans are effective today, February 7, if you enroll in them.

Q. Who are the carriers? What is my cost?

A. The carriers are [AAA], [BBB], and [CCC]. Costs are comparable; however, there is no Employee-Plus-One option. Please see your enrollment package and Summary Plan Descriptions for details. Deductibles met year-to-date will be recognized.

Q. I have medical/dental/vision claims that I have not processed for reimbursement with the prior carriers; how long do I have to do this?

A. We ask that any claims for coverage provided by prior carriers up through February 6 be submitted by April 30.

Q. Will I have life insurance coverage?

A. Yes, NewCo provides all employees with life insurance equal to one times base salary at no cost. Additional life insurance can be purchased; however, Dependent Life and AD&D will not be available.

Q. Will I have short-term and long-term disability coverage? How will they vary?

A. Yes, both are available at NewCo. STD and LTD are available at no cost to the employee because NewCo pays 100% of premium; however the coverage is paid at a reduced formula. Also, the elimination period will change from 5 to 14 days. STD coverage does coordinate with LTD coverage—at 26 weeks instead of 13 weeks. Please see the Summary Plan Description for more details.

Q. Will there be a retirement plan of some type? Will there be any company match?

A. Yes, NewCo offers a 401(k) program with company match that is slightly higher than your previous plan and vests fully in three years rather than five. The maximum contribution level is 10%. You must have six months of service to be eligible to participate in the plan.

Q. What will happen with my existing funds?

A. All funds are being moved to NewCo plan. Further communication will be provided when this occurs.

Q. How will my 401(k) loan be handled?

A. As part of the fund transfer, all 401(k) loan balances will also be transferred. Loan deductions will resume immediately through payroll deductions.

Q. What happens to my stock?

A. The stock you own will be converted to NewCo shares. You will receive instructions and further information in the mail within the next six weeks.

Q. What happens to the vacation hours I had accrued that I had not used?

A. Accrued vacation balances will be transferred over to NewCo.

Q. How much vacation will I earn in the future?

A. Vacation hours accrued each year are comparable; slightly better

in some instances. See full-time accrual rates below. See full details in your Welcome Package.

SendCo	NewCo
	0–3 years service = 80 hours/year
0–4 years service = 80 hours/year	4–7 years service = 120 hours/year
5–9 years service = 120 hours/year	8–9 years service = 144 hours/year
10+ years service = 160 hours/year	10+ years service = 160 hours/year

Please note that vacation must be used by 12/31 each year per NewCo policy.

Q. What happens to my unused sick or personal pay?

A. Accrued sick/personal hours for nonexempt employees will be transferred to NewCo. Hours will not be transferred for exempt employees because those are not tracked in payroll; individual arrangements are made with direct manager.

Q. Will I accrue hours for sick or personal pay in the future? How much?

A. Full-time nonexempt employees will accrue 72 hours versus the previous 54 hours annually. See full details in your Welcome Package.

Q. What holidays will be recognized in the new organization?

A. Six national holidays are recognized at NewCo: New Year's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, and Christmas.

Q. I was in the process of obtaining a degree and had tuition assistance. How will that be handled, and will the new organization provide this assistance?

A. NewCo does not provide tuition reimbursement. However, for any classes for which you previously had approval and are in progress of finishing, prior policy will be honored. If you are enrolled in a degree program, additional classes beyond what is approved and in progress at the time of announcement will not be reimbursed.

Q. I have flexible spending accounts for dependent care and medical expenses. What will happen with those, and how do I submit expenses going forward?

A. NewCo has Flexible Spending Account options also. Balances in

existing accounts will be rolled over to NewCo's organization account manager, FSACo. Your expenses should be submitted to FSACo following instructions that will be provided in your Welcome Packages. Current deducts will continue through Newco's payroll deductions.

Compensation/Career Questions

Q. When is payday, and how often is it?

A. Payday will continue to be Friday; however, NewCo pays biweekly. You will receive a paycheck this Friday, and thereafter every other Friday for two weeks' pay. The workweek begins on Saturday, and timesheets are to be submitted to the payroll department each nonpay Friday. A one-week lag in pay for hours worked will continue. See your Welcome Package for specific dates and instructions.

Q. Can I continue having automatic deposit?

A. Yes, automatic deposit is available through the NewCo payroll department. Current direct deposit information will tranfer to NewCo. If you do not currently automatic deposit and wish to begin, please see your Welcome Package for instructions.

Q. Will my job title and pay be the same?

A. Job titles are different at NewCo, and a full comparison between the two organzations has been conducted to classify SendCo's job categories into comparable positions. For the most part, base wages and salaries will be the same, although there are anticipated exceptions where some job responsibilities will change. Your manager will meet with you individually to discuss your offer letter, position, pay, and responsibilities.

Q. When and how do I get pay increases in the new organization?

A. Performance reviews are conducted every six months at NewCo instead of annually. Merit increases can be earned based on overall performance. In addition, promotions can be earned based

on competency-based achievements. Your manager will provide more details to you over the next six weeks.

Q. How will I find out about career opportunities?

A. Your manager will discuss the competency-based job growth opportunities after he or she has been provided training and materials on the process. Plus, NewCo does have a Career Center on the intranet with nationwide opportunities posted. You should find that the new combined organization will have new career options available.

Q. What training and development is available in the new organization?

A. Initial classes will provide process and procedural training for you on NewCo systems. For ongoing development, you and your manager will determine the competencies required for your particular career path. Training will be based on those needs. NewCo invests a percentage of payroll in the training and development of employees.

Q. I had shift pay. Will I still receive that?

A. NewCo does pay shift differential pay. Nonexempt employees working from 4:00 P.M. to midnight will transfer with 10% differential; those working from midnight to 8:00 A.M. will transfer with 15% differential. Exempt and all other hourly combinations will be reviewed on an individual basis.

Q. I received on-call pay. Will that still happen?

A. NewCo pays on-call pay for nonexempt employees required to respond to off-hour emergencies. Such employees who are on-call will receive $35/day on weekends and $10/day on weeknights.

Q. I had the opportunity to earn a bonus each quarter. What will happen to this quarter's bonus? And will the new organization offer bonuses?

A. Because we are three weeks away from the end of the fiscal quarter, all transferring employees will be paid any bonus due based on SendCo's compensation plans. The new organization *does* offer bonus opportunities. Good news here: At SendCo all positions participate in an incentive bonus program, so there is opportunity to earn more. Your manager will provide you with a copy of the in-

centive plan in which you will be eligible to participate starting next quarter.

Q. I had specific bonus objectives to achieve. Should I continue to focus on those?

A. Yes. Until your manager provides different objectives, continue to focus on those goals previously established.

Q. Whom should I contact for questions regarding payroll?

A. Payroll questions should be addressed to (123) 123-1234, or use the e-mail address at Payroll.Dept@NewCo.com. If problems continue, you may contact NewCo's Payroll Manager, Sidney Booker at (123) 123-1230.

Q. Whom should I contact for questions regarding travel expenses?

A. Travel expense will be processed from SendCo's Accounts Payable department for all expenses incurred up to Announcement Day. For all expenses incurred today (3/10) and beyond, submit questions via e-mail to TvlExp.Dept@newCo.com, or call (123) 123-2345.

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